

FEBRUARY 2012

BUY-WRITE STRATEGY SIMULATIONS

Presentation for the Options Industry Council



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BUILDING TEAM SPIRIT TOGETHER

 **SOCIETE GENERALE**
Corporate & Investment Banking

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BUY-WRITE STRATEGY SIMULATIONS

We looked at:

- 3 option Maturities
 - 1 week (5 business days)
 - 1 month (20 business days)
 - 3 month (60 business days)

- 5 Strike levels
 - 95% ➤ ATM ➤ 105%
 - 98% ➤ 102%

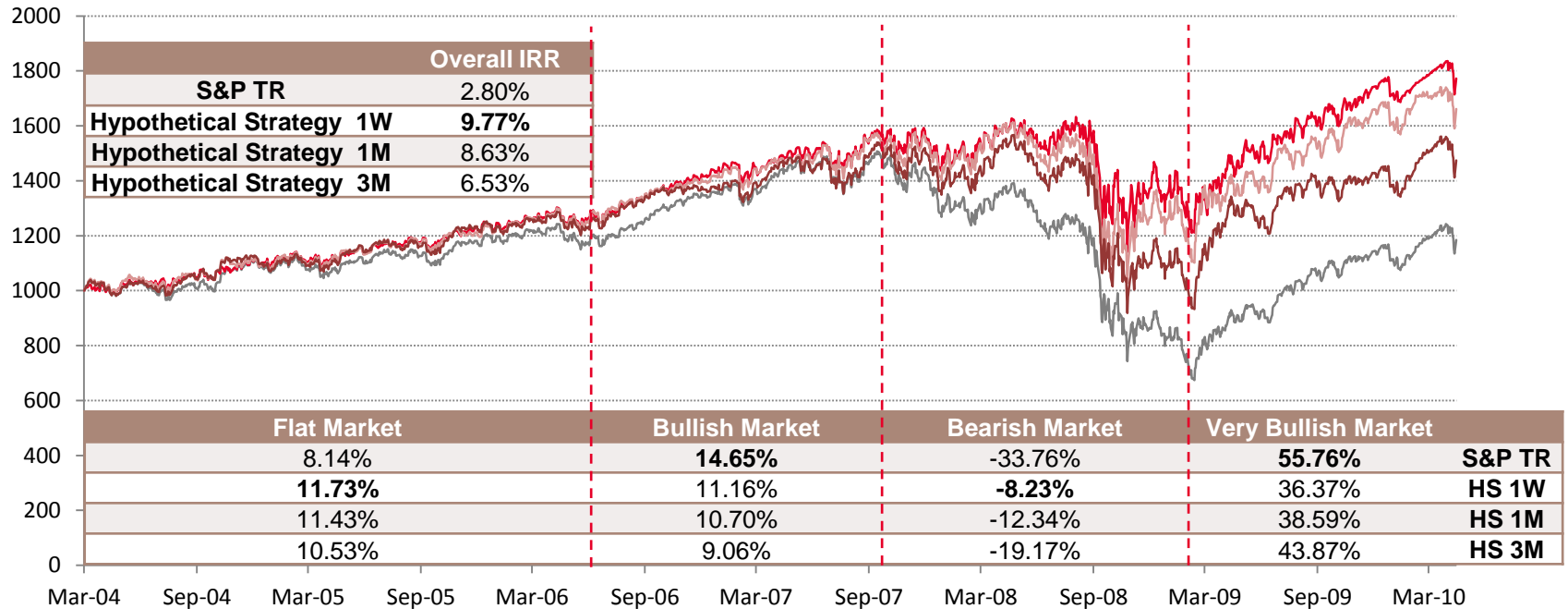
- Multiple frequencies of option writing
 - Every day
 - On a weekly/monthly/quarterly basis (according to the option maturity)

► Comparison between S&P 500 TR and back-tested strategies (ATM, ITM, OTM)

- Hypothetical Strategy 1W (HS 1W): each day, the strategy shorts 1/5 of a Call Option on SPX, maturity 1 Week
- Hypothetical Strategy 1M (HS 1M): each day, the strategy shorts 1/20 of a Call Option on SPX, maturity 1 Month
- Hypothetical Strategy 3M (HS 3M): each day, the strategy shorts 1/60 of a Call Option on SPX, maturity 3 Months

DAILY ROLLS OF ATM OPTIONS: 1W, 1M, 3M MATURITIES

On each business day, strategy shorts 1/N part* of an ATM Call on the S&P 500®



Source: Bloomberg & SG Financial Engineering Data from March 26th, 2004 to May 10th, 2010

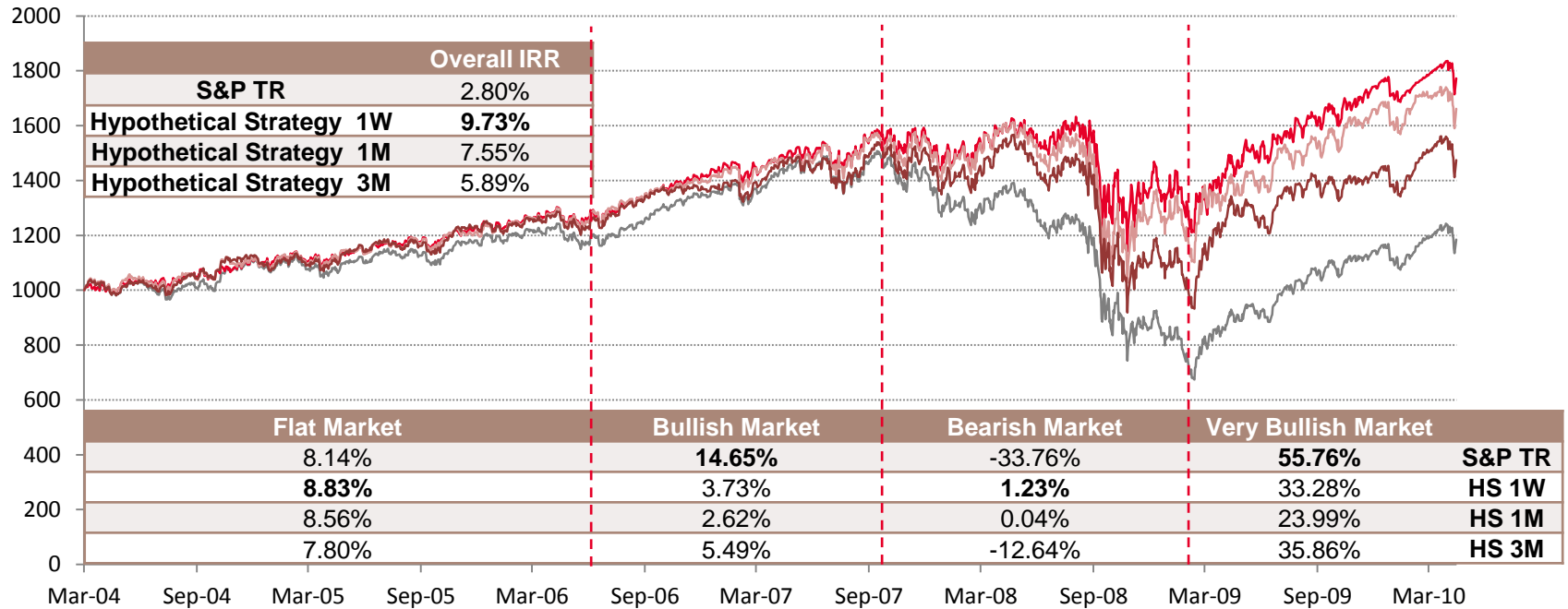
— SPTR — HS 1W — HS 1M — HS 3M

Flat Market: from 3/26/04 to 6/30/2006
 Bullish Market: from 7/3/06 to 7/30/2007
 Bearish Market: from 8/1/07 to 2/28/09
 Very Bullish Market: from 3/2/09 to 5/10/10

The results above are illustrative and provided for information only. They should not be read as a guarantee or an indication of the future performance. See "Important Legal Notice - Simulations" in the front of this document for important cautionary statements regarding the simulations presented herein.

DAILY ROLLS OF ITM OPTIONS: 1W, 1M, 3M MATURITIES

On each business day, strategy shorts 1/N part* of a Call on the S&P 500®



Source: Bloomberg & SG Financial Engineering Data from March 26th, 2004 to May 10th, 2010

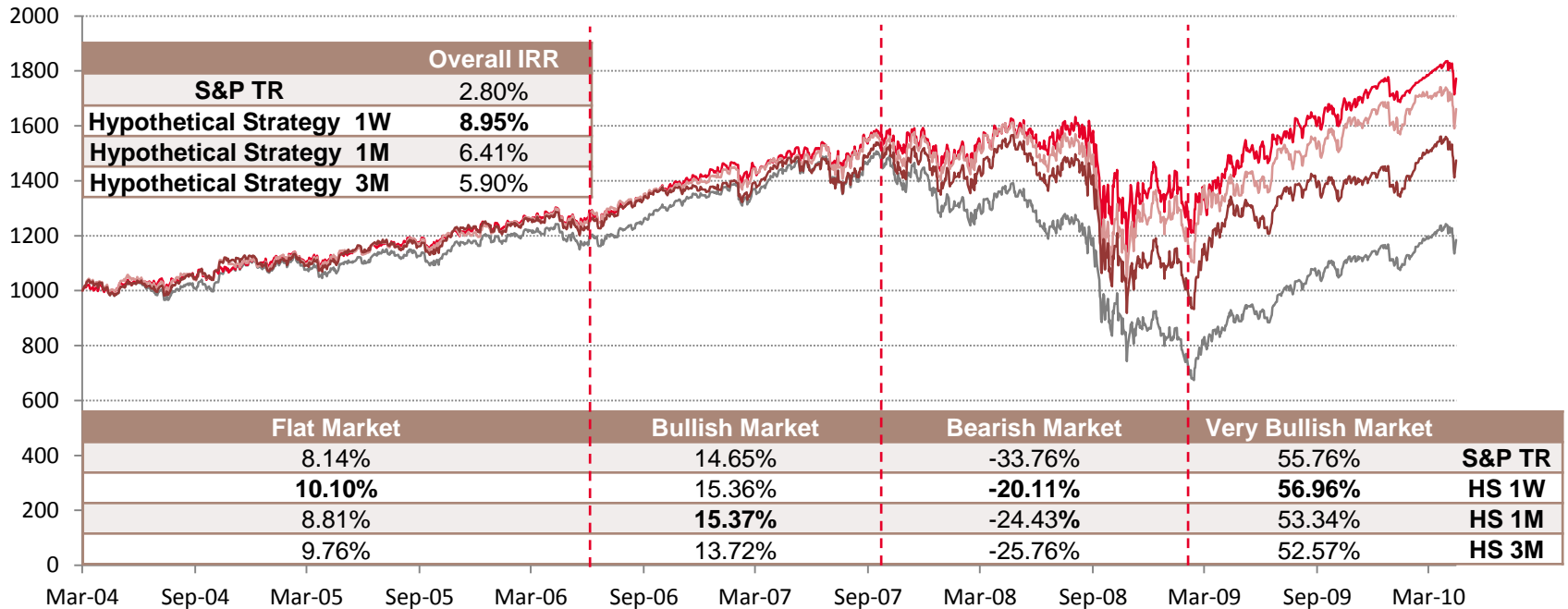
— SPTR — HS 1W Strike 98% — HS 1M Strike 95% — HS 3M Strike 95%

Flat Market: from 3/26/04 to 6/30/2006
 Bullish Market: from 7/3/06 to 7/30/2007
 Bearish Market: from 8/1/07 to 2/28/09
 Very Bullish Market: from 3/2/09 to 5/10/10

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DAILY ROLLS OF OTM OPTIONS: 1W, 1M, 3M MATURITIES

On each business day, strategy shorts 1/N part* of a Call on the S&P 500®



Source: Bloomberg & SG Financial Engineering Data from March 26th, 2004 to May 10th, 2010

— SPTR — HS 1W Strike 102% — HS 1M Strike 105% — HS 3M Strike 105%

Flat Market: from 3/26/04 to 6/30/2006
 Bullish Market: from 7/3/06 to 7/30/2007
 Bearish Market: from 8/1/07 to 2/28/09
 Very Bullish Market: from 3/2/09 to 5/10/10

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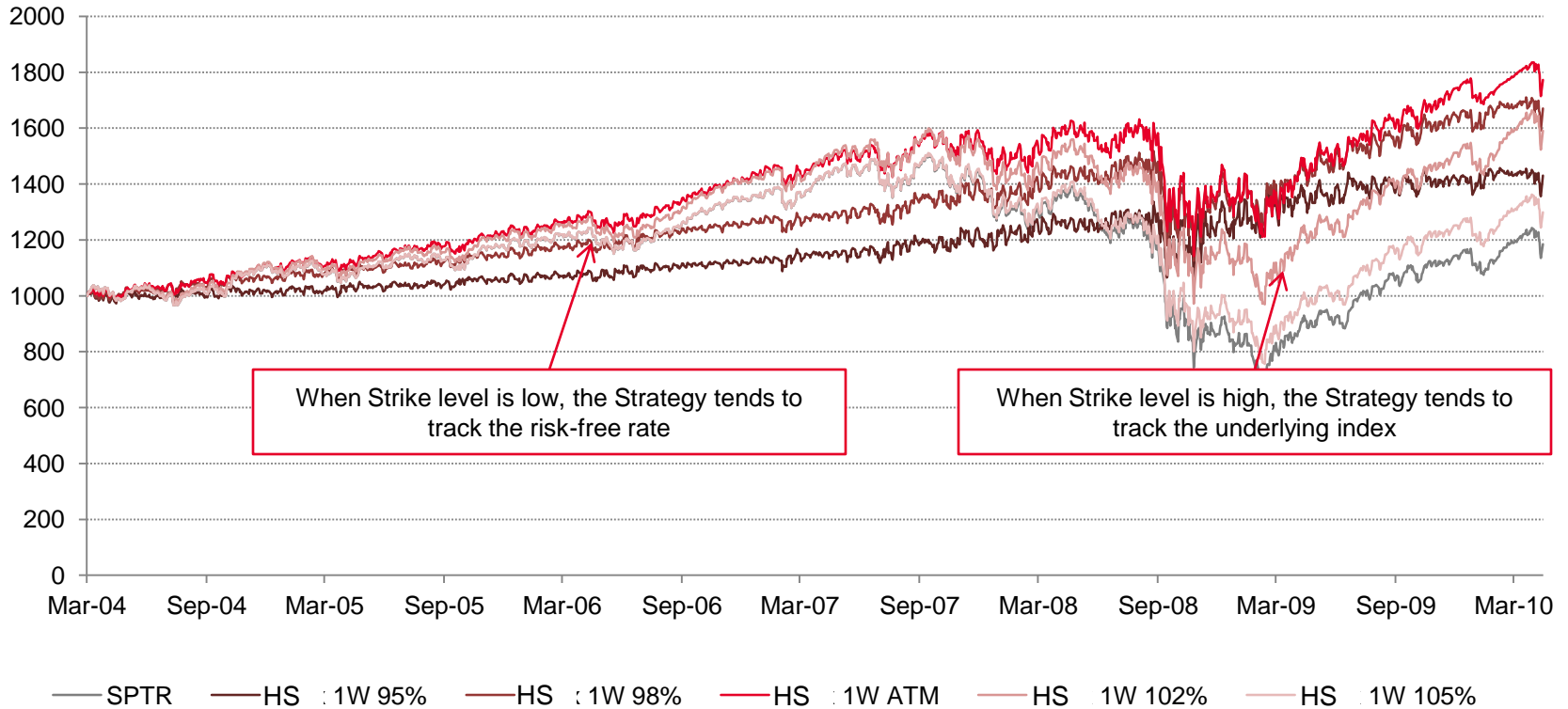


Measure of the impact of different Strike levels on:

- 1 week Strategy
- 1 month Strategy
- 3 months Strategy

DAILY ROLLS OF 1 WEEK OPTIONS - STRIKES: 95%, 98%, 100%, 102%, 105%

On each business day, strategy shorts 1/5 part of a Call on the S&P 500®

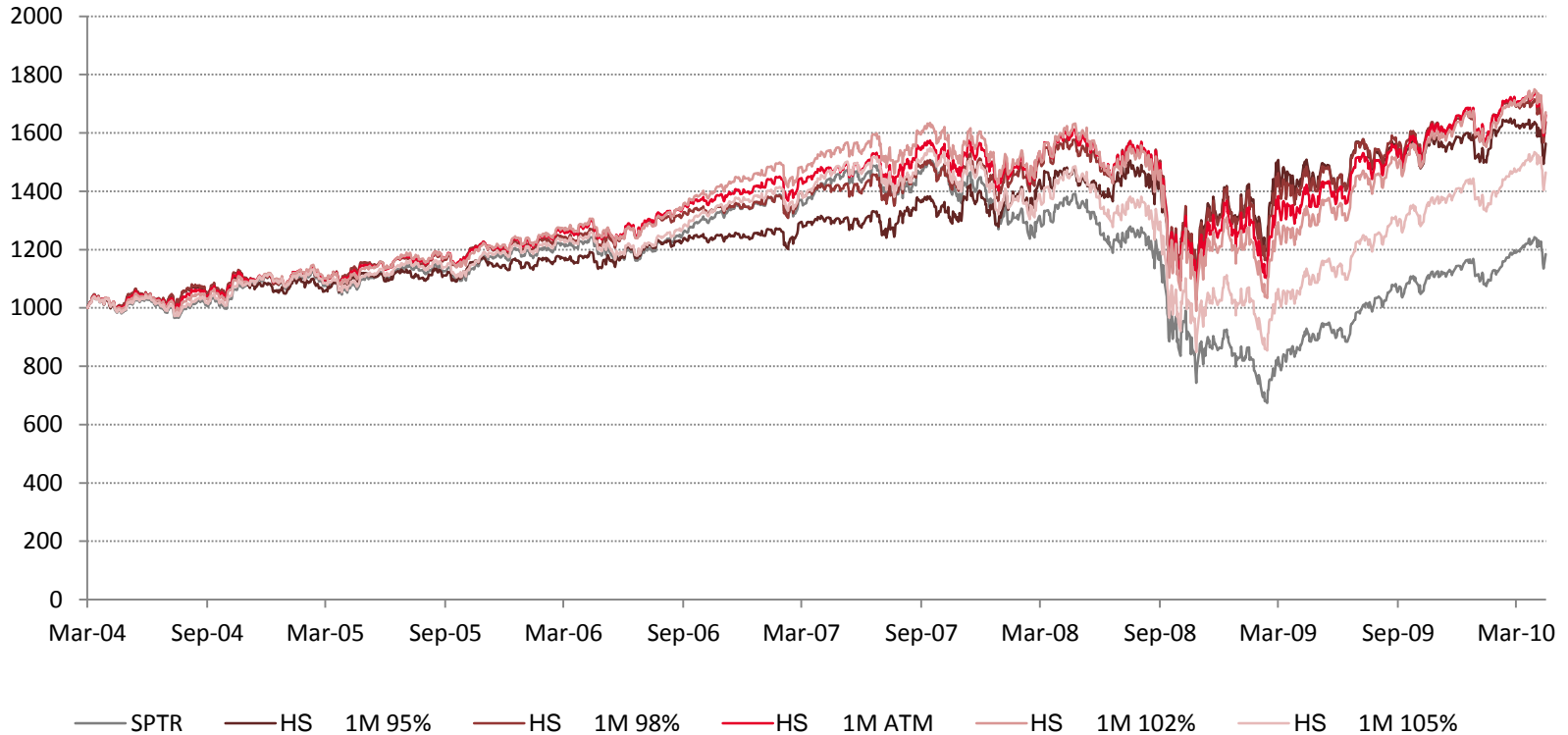


Source: Bloomberg & SG Financial Engineering
Data from March 26th, 2004 to May 10th, 2010

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DAILY ROLLS OF 1 MONTH OPTIONS - STRIKES: 95%, 98%, 100%, 102%, 105%

On each business day, strategy shorts 1/20 part of a Call on the S&P 500®

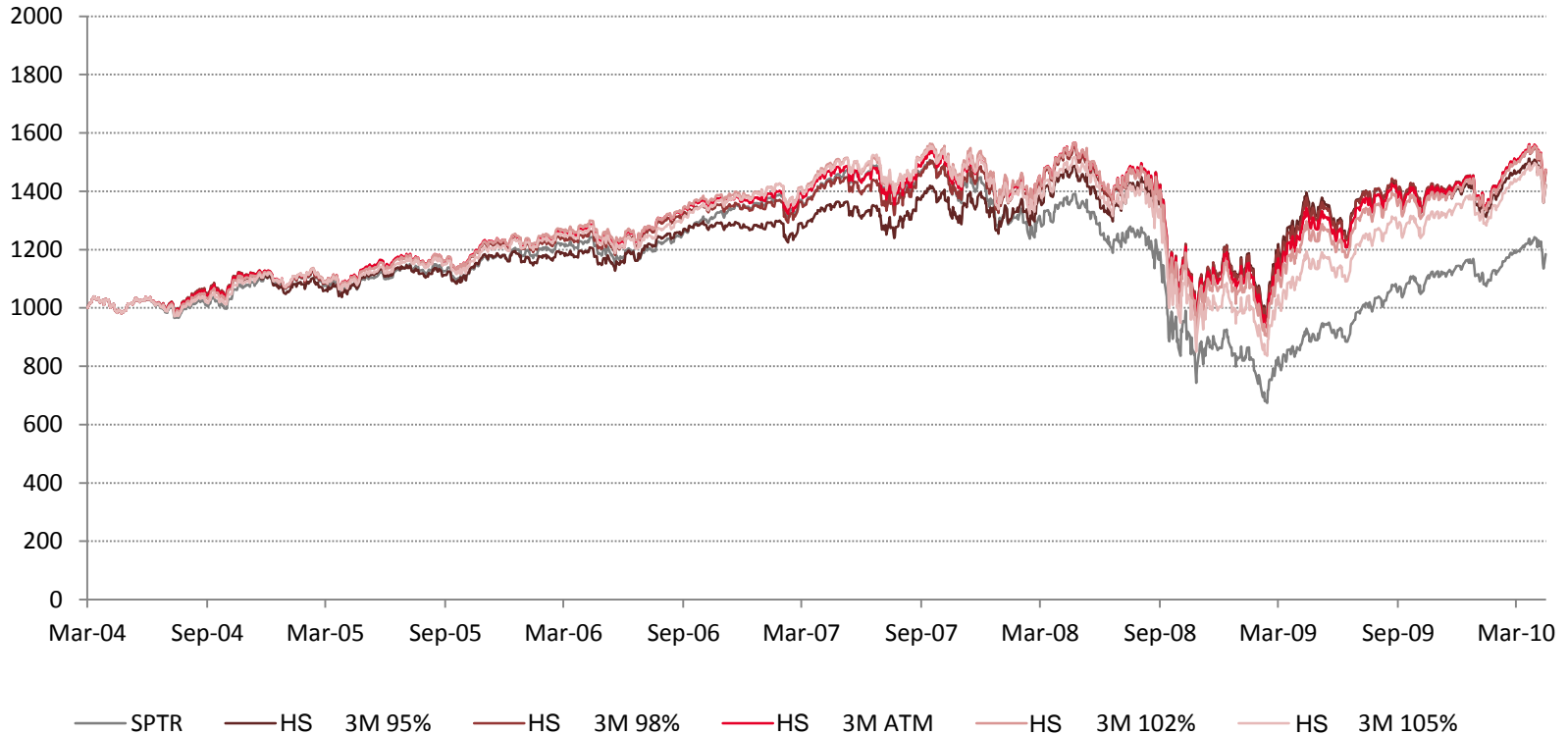


Source: Bloomberg & SG Financial Engineering
 Data from March 26th, 2004 to May 10th, 2010

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DAILY ROLLS OF 3 MONTH OPTIONS - STRIKES: 95%, 98%, 100%, 102%, 105%

On each business day, strategy shorts 1/60 part of a Call on the S&P 500®



Source: Bloomberg & SG Financial Engineering
 Data from March 26th, 2004 to May 10th, 2010

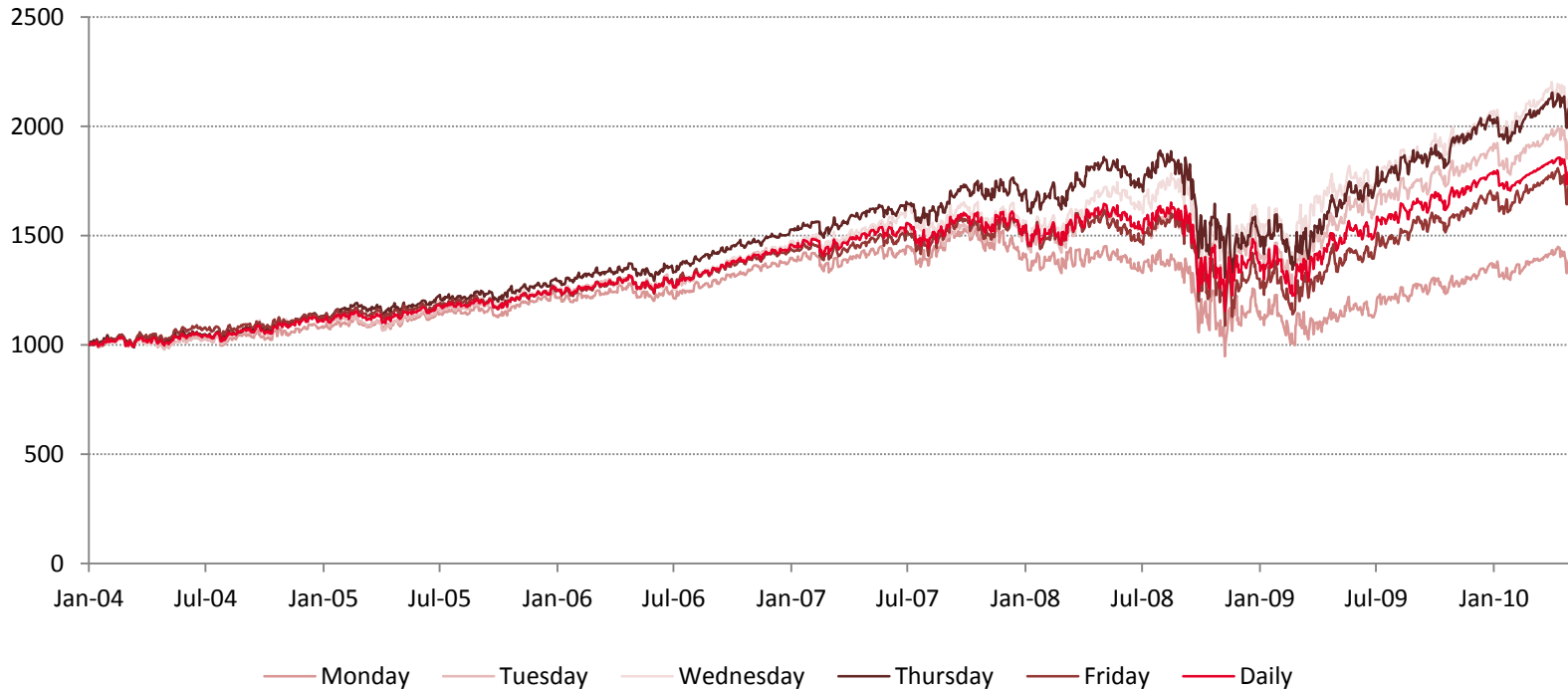
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Difference between Daily rolls and Weekly rolls

DAILY ROLLS VS WEEKLY ROLLS OF 1 WEEK ATM OPTIONS

Weekly Rolls Start on Monday, Tuesday, Wednesday, Thursday or Friday



Source: Bloomberg & SG Financial Engineering
 Data from January 14th, 2004 to May 10th, 2010

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A FEW INTERESTING OBSERVATIONS BASED ON THE SIMULATIONS HEREIN

- Overall performance of the 1-Week Buy-Write Strategy compared to the 1M or 3M maturities
 - The higher Theta embedded in short term options seems to be the reason for the outperformance (approximately twice the amount of premium is collected vs monthly maturity)
- Potential benefits of daily roll vs weekly: higher performance dispersion when rolling only once a week
 - Daily Rolls give a statistical exposure by reducing the performance dispersion (see graph page 14)
- For a given maturity, strategies based on ATM strike appear to deliver better risk-adjusted returns than ITM or OTM