BUY-WRITE STRATEGY SIMULATIONS

Presentation for the Options Industry Council

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The hypothetical historical performances data presented hereafter have not been verified by any independent third party. Hypothetical historical results shown in this document have their inherent limitations. These back-tested results are determined by means of a retroactive application of a back-testing model designed with the benefit of hindsight. Alternative modeling techniques or assumptions might produce significantly different results and prove to be more appropriate or accurate. Hypothetical back-tested results are neither an indicator nor guarantee of future returns or future performance. Actual results will vary, perhaps materially, from the hypothetical analysis above.
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
  - 98%
  - 102%
  - 105%

- **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®

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**Overall IRR**

<table>
<thead>
<tr>
<th></th>
<th>S&amp;P TR</th>
<th>Hypothetical Strategy 1W</th>
<th>Hypothetical Strategy 1M</th>
<th>Hypothetical Strategy 3M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat Market</td>
<td>8.14%</td>
<td>14.65%</td>
<td>11.16%</td>
<td>10.70%</td>
</tr>
<tr>
<td>Bullish Market</td>
<td>-33.76%</td>
<td>-8.23%</td>
<td>-12.34%</td>
<td>-19.17%</td>
</tr>
<tr>
<td>Bearish Market</td>
<td>55.76%</td>
<td>36.37%</td>
<td>38.59%</td>
<td>43.87%</td>
</tr>
<tr>
<td>Very Bullish Market</td>
<td>S&amp;P TR</td>
<td>HS 1W</td>
<td>HS 1M</td>
<td>HS 3M</td>
</tr>
</tbody>
</table>

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

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*For HS 1W, N = 5 - For HS 1M, N = 20 - For HS 3M, N = 60

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

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*For HS 1W, N = 5 – For HS 1M, N = 20 – For HS 3M, N = 60
On each business day, strategy shorts 1/N part* of a Call on the S&P 500®

<table>
<thead>
<tr>
<th>Flat Market</th>
<th>Bullish Market</th>
<th>Bearish Market</th>
<th>Very Bullish Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.14%</td>
<td>14.65%</td>
<td>-33.76%</td>
<td>55.76%</td>
</tr>
<tr>
<td>10.10%</td>
<td>15.36%</td>
<td>-20.11%</td>
<td>56.96%</td>
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<tr>
<td>8.81%</td>
<td>15.37%</td>
<td>-24.43%</td>
<td>53.34%</td>
</tr>
<tr>
<td>9.76%</td>
<td>13.72%</td>
<td>-25.76%</td>
<td>52.57%</td>
</tr>
</tbody>
</table>

Overall IRR
- S&P TR: 2.80%
- Hypothetical Strategy 1W: 8.95%
- Hypothetical Strategy 1M: 6.41%
- Hypothetical Strategy 3M: 5.90%

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

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*For HS 1W, N = 5 - For HS 1M, N = 20 - For HS 3M, N = 60
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®

When Strike level is low, the Strategy tends to track the risk-free rate

When Strike level is high, the Strategy tends to track the underlying index

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

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*For HS 1W, N = 5  -  For HS 1M, N = 20  -  For HS 3M, N = 60

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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®

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*For HS 1W, N = 5  -  For HS 1M, N = 20  -  For HS 3M, N = 60
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

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Difference between Daily rolls and Weekly rolls
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*For HS 1W, N = 5  -  For HS 1M, N = 20  -  For HS 3M, N = 60
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