



Rampart Investment Management

THE CASE FOR HEDGED EQUITIES

ADDENDUM

October 2009

Ronald M. Egalka
President and Chief Executive Officer
Rampart Investment Management

***Addendum to “The Case for Hedged Equities”:
One Year Later: 10/24/2009***

It has been a year since Rampart published its white paper “The Case for Hedged Equities”, and what a year it has been! The S&P 500 Index reached its closing nadir of 677 on March 9, 2009 and has rebounded 61% since then to close at 1092 on October 22nd.

We opined in our paper a year ago that we thought we were in or about to enter a lengthy global recession. While, by many measures, the depth of the recession was less severe than many (including us) expected, there are still a number of macroeconomic issues that remain troubling; an unemployment rate approaching 10%, weekly initial jobless claims still hovering above 500,000, a weak dollar and a Federal Reserve Bank that seems poised to raise rates at some point in the near future. We believe that these and other factors suggest that there is a high likelihood that we will see an increase in equity market volatility.

We talked about implied volatilities extensively in our white paper, and while we have certainly seen implied volatilities decline significantly with the recent market advance, volatility levels remain above those seen in periods leading up to the market correction in 2008. For example, the CBOE Volatility Index, or VIX, is currently at 20.7 (10/22/09), while for most of the three-year period preceding the sell off at the end of 2008, the index was in the 10-15 range. Therefore, option premiums, which are driven by volatility levels, remain attractive for call writers.

At Rampart, we continue to see an increase in investors seeking to employ protective strategies to ensure that they do not experience the same type of catastrophic decline that they saw in 2008. Protective strategies include using puts and collars. In addition, other investors are seeking ways to monetize the volatility of the equity market to help offset the diminution of cash flows from lower asset levels and dividend cuts. Hedged equity strategies can help institutions that

have been challenged in this current environment to meet their income and spending needs.

We discuss the CBOE S&P 500 BuyWrite (BXM) strategy in the white paper – a strategy which over the long term has produced equity like returns with only two-thirds of the market’s volatility. A concern among some investors may be the truncation of returns in a very strong market environment. The extraordinary rebound since March 9th provided an excellent “test” of this hedging strategy – and the BXM delivered an attractive 42% return (versus the 61% unhedged return of the S&P 500 noted above) for the March 9th – October 22nd period.

In summary, option-based strategies can help endowments, foundations and other institutional investors meet a range of investment goals – including income enhancement, protecting principal value or lowering overall portfolio risk. At Rampart, we are happy to talk to investors about meeting these investment goals.

**For more information, please contact
Richard R. Davis, CFA at (617) 342-6905.**

www.rimco.com

Sources: Bloomberg, LP