

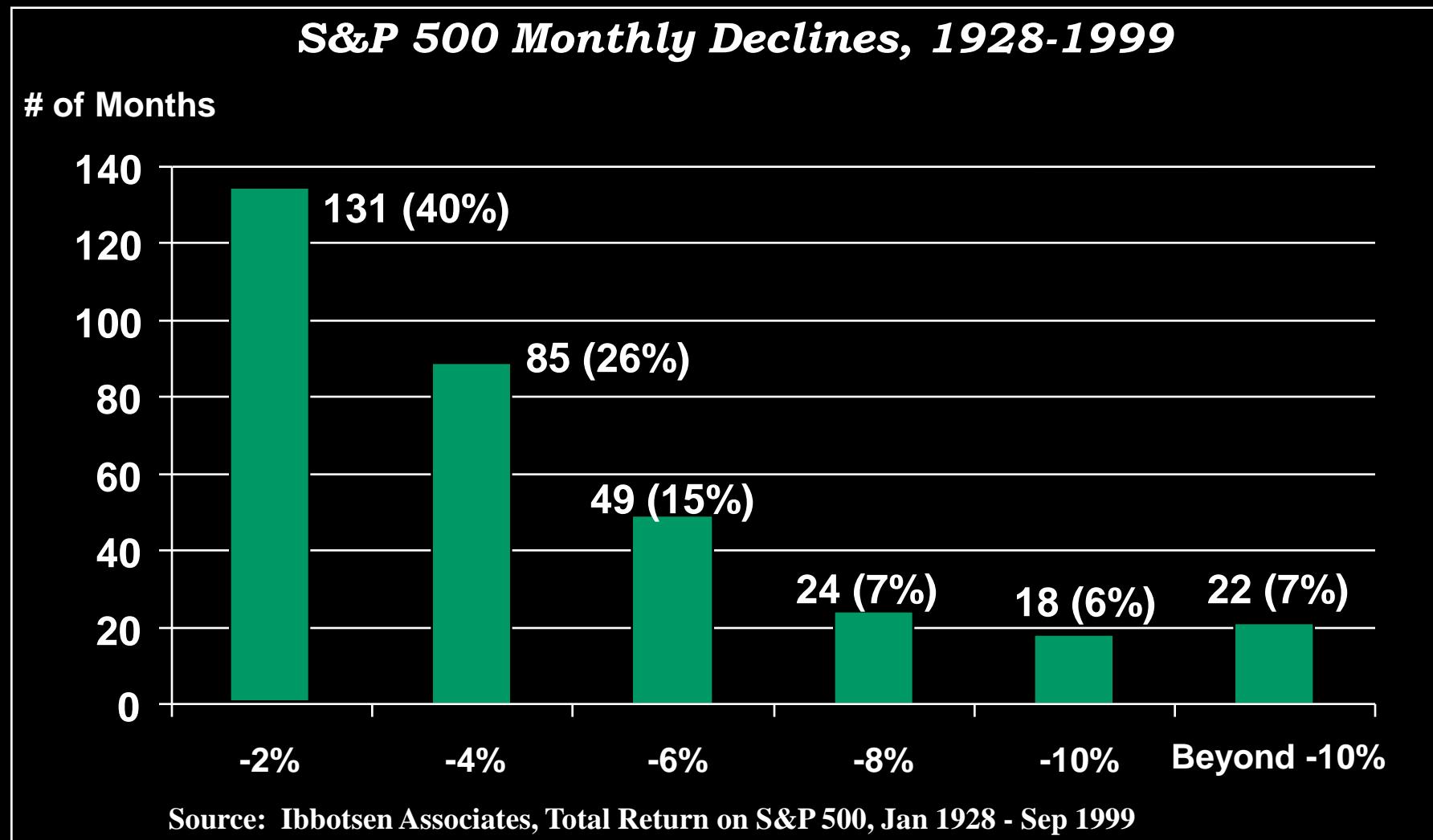
Tax-Managed Options Strategies for High-Net-Worth Individuals

**San Francisco Park Hyatt
November 3, 1999**

**Bob Bannon, CFA
Managing Director
Analytic Investors, Inc.**

Why Seek Portfolio Protection?

History shows markets can fall quickly and sharply:

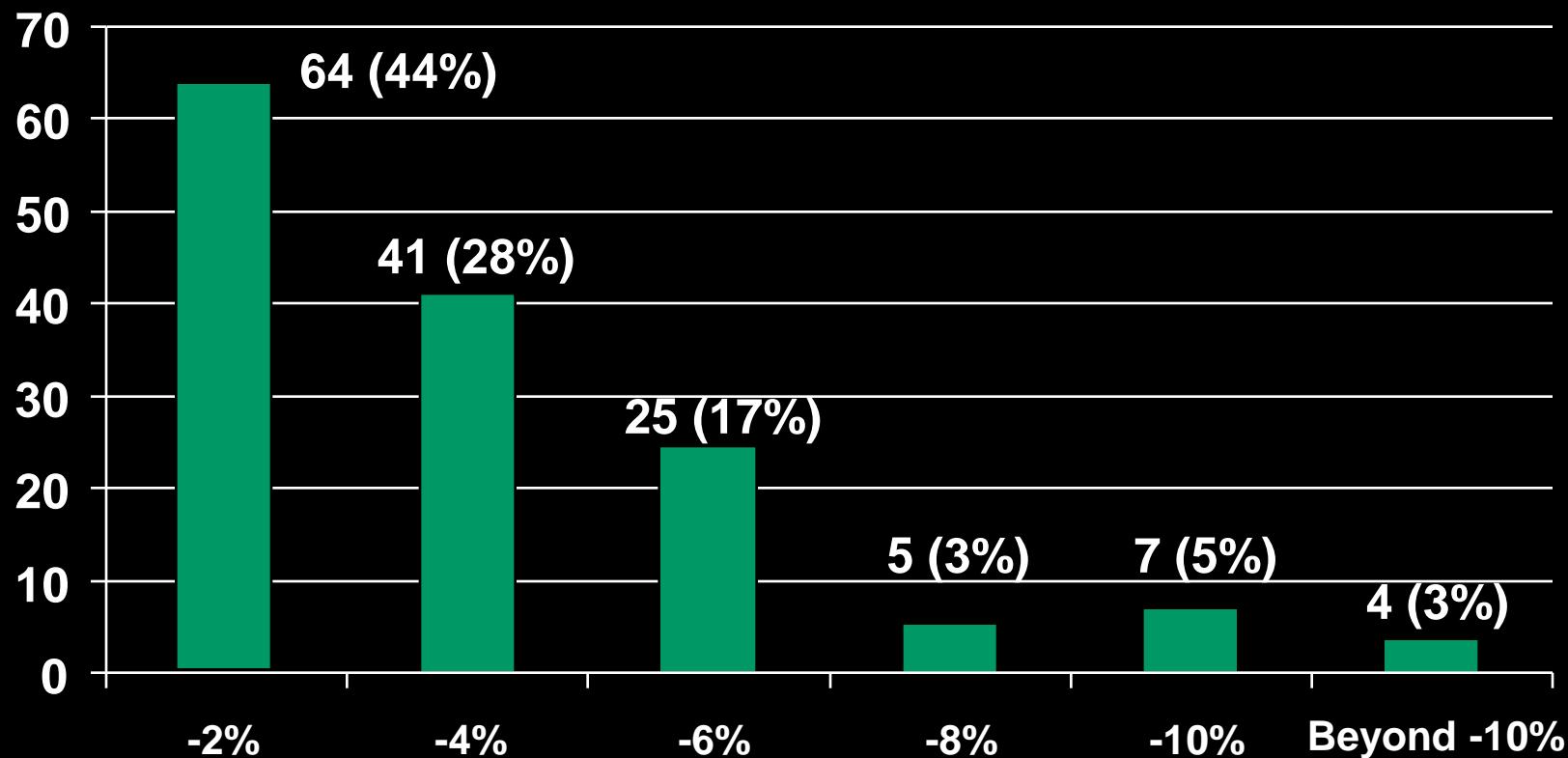


Why Seek Portfolio Protection?

Recent history has not been much different:

S&P 500 Monthly Declines, 1968-99

of Months

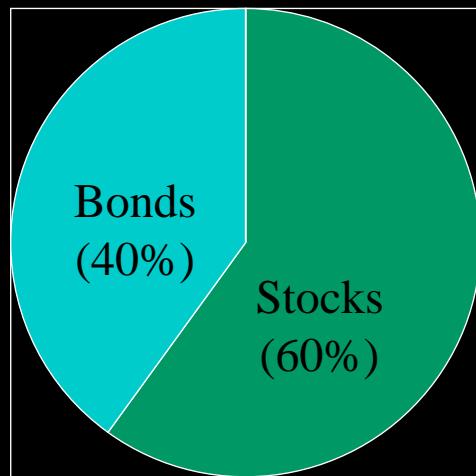


Source: Ibbotsen Associates, Total Return on S&P 500, Jan 1968 - Sep 1999

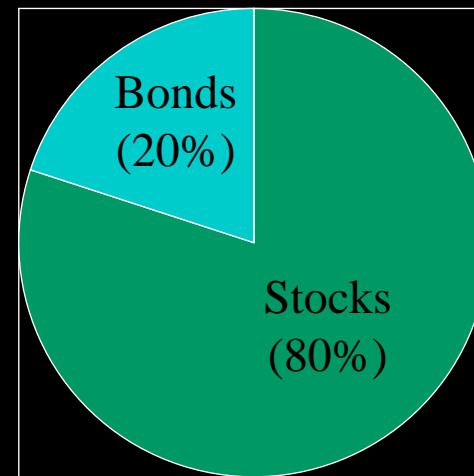
Traditional Methods of Portfolio Protection

Managers Allocate to and from a “Bond Cushion”

DEFENSIVE



AGGRESSIVE



Need Portfolio Protection? Consider Options

WHY OPTIONS ARE BETTER THAN BONDS

MARKET
SENSITIVE

STOCKS ARE
UNFETTERED

GENERATE
INCOME

PERMIT MORE
EXPOSURE TO
STOCKS

NO NEED TO
REBALANCE A
“CUSHION”

Options-Based Portfolio Protection

- I. Covered Calls (Call Overwriting)
- II. Protective Puts
- III. Collaring

Option-Based vs. Traditional Protection

CONDITION	OPTION PROTECTION	BOND CUSHION
Stocks Fall	Increasing Protection	Constant Protection
Stocks Rise	Decreasing Participation	Constant Participation
Time Decay	Gain or Lose Money	Earn Bond Interest
Catastrophe Protection	Very Good	Limited
Stock Selection	Maintained	Disturbed

Implementation Issues

Choices to be made when using options-based protection:

- ☞ Investment Horizon: protection for how long?
- ☞ Structure: puts, calls, or a collar?
- ☞ Strike Choice: how much protection?
- ☞ Implementation: active or passive?
- ☞ Hedging Focus: protect stocks or portfolio?

Case Study: Option Hedging

The Defensive Equity Strategy of Analytic Investors

- ☞ Portfolio Holdings: 100% Large Cap Stocks
- ☞ Management Style: Active Management
- ☞ Option Use: Short Calls and Long Puts
- ☞ Mix Equivalent: 60% Stocks/40% Bonds
- ☞ Hedging Focus: Hedge Market, Not Stocks

Performance vs. Comparative Benchmark

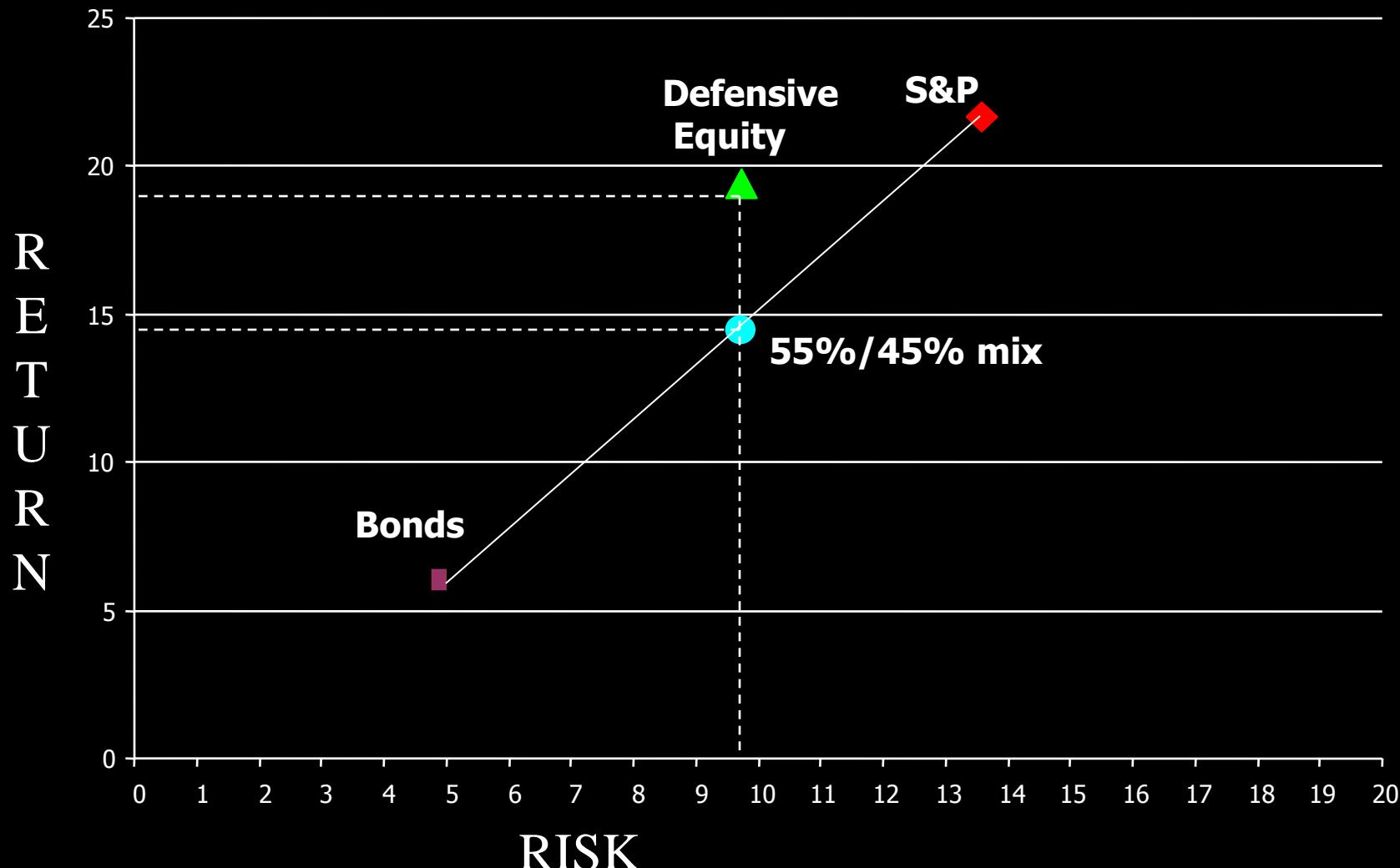


Defensive Equity: 19.5%

55%/45% Mix: 14.9%

Defensive Equity 55%/45% Mix

Defensive Equity Risk Comparison: 1994 - 1999



CONCLUSION?

Analytic Investor's Defensive Equity Strategy
Shows the Power of Option Hedging

**STOCK GAINS
SHINE
THROUGH**

**100%
EXPOSURE TO
STOCKS**

**GENERATES
INCOME IN
FLAT MARKETS**

**HEDGING DOES NOT
INTERFERE WITH STOCK
SELECTION**