



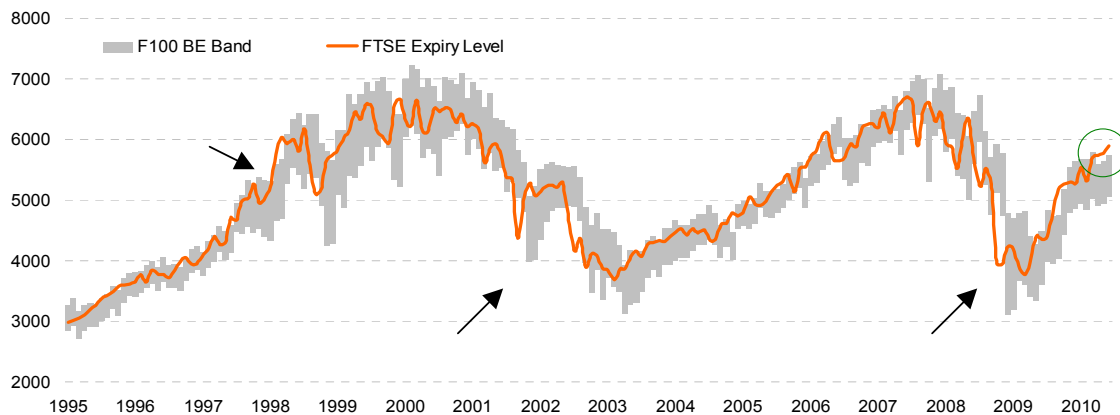
OXEYE FTSE 100 Option Strategies Market Circumstances & Strategy Outlook – March 2010

In March the Oxeye FTSE option strategies experienced a drawdown period and this note will explain the market circumstances that have led to the losses and our outlook for near-term recovery.

Market Circumstances

Chart 1 shows the history of the FTSE 100 index and the break-even bands of the strategy's written range. The arrows highlight the periods where the index has broken out of the range (where the red line moves outside the grey band) resulting in losses for Oxeye option-writing strategies. Whilst most of these losses occurred during bearish market moves, occasionally they happen when the market is rallying strongly, such as now.

Chart 1



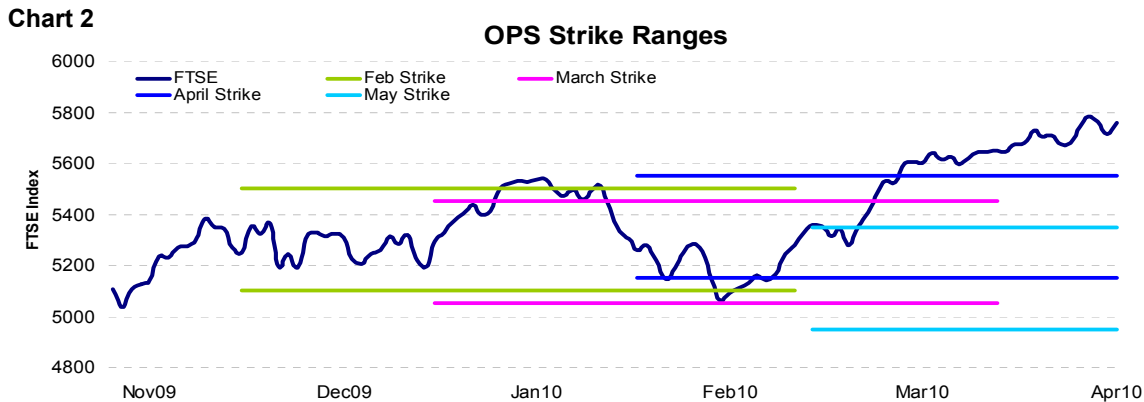
Losing periods for Oxeye strategies can be grouped into 2 categories of trading environment where:

1. FTSE breaks the lower end of the range and then immediately reverses to break the upside;
 2. FTSE breaks the lower end of the range accompanied by a sharp increase in Implied Volatility (IV).
1. A period where the market 'whipsaws' from one direction to another (such as we have just experienced) can cause a drawdown for both the Option Premium Strategy (OPS) and the Protected Option Premium Strategy (POPS) owing to the double break of both sides of the range in quick succession. The strategy naturally scrolls its breakeven range higher as the market rises and, because market rallies tend to be slower than market falls, the strategies steadily find the new range.
2. During periods that see IV start low and then increase sharply the strategies may suffer losses due to the subsequent rise in IV. However, the rise in IV usually presages a period of profitability because of the resulting increase in premium income.



Current Drawdown for OPS - March 2010 - 6.07%, YTD - 1.56%

Chart 2 shows the strike ranges for the February, March and April positions.

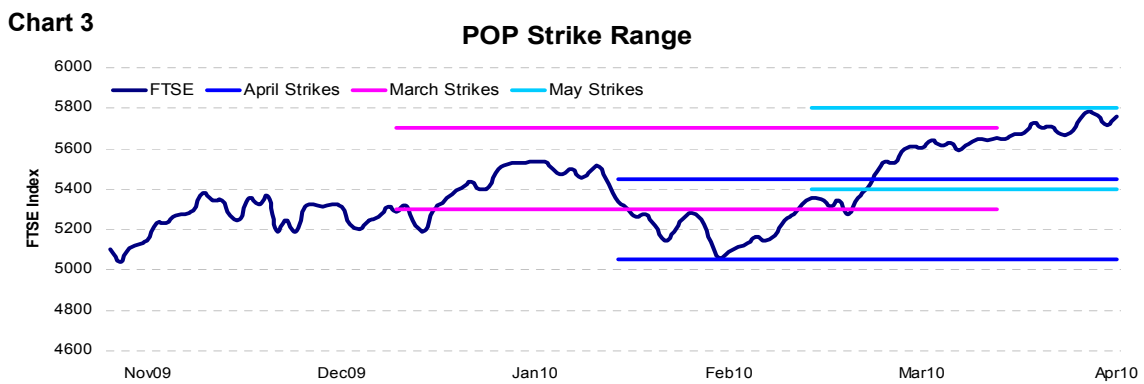


A drop of some 400 points in the market at the end of January to the middle of February was beneficial to the strategy as the market fell back into the existing range. The index low in the middle of February put pressure on newly written April strangles. To protect the position 2 full strangles were scrolled down in case of any further falls. Unfortunately an immediate reversal by FTSE of +14% from the low in February to the end of March broke through the March and April call ranges.

Consequently, the May call strikes, written in the middle of February (near the low) and still open, are under pressure and responsible for the majority of the unrealised drawdown for March. The May calls, on average struck at 5350, are now deep-in-the-money, although May puts have been scrolled up to reduce the overall short delta of the strategy. Overall the portfolio is net short and would benefit considerably with the market down and back into the range.

Current Drawdown for POPS - March 2010 - 7.45%, YTD - 5.06%

The current drawdown can be attributed to the type 1) situation discussed above. From the January high FTSE fell 10.1% in just 4 weeks only to rally 15% to the high at the start of April. Chart 3 shows the March to May strike prices.

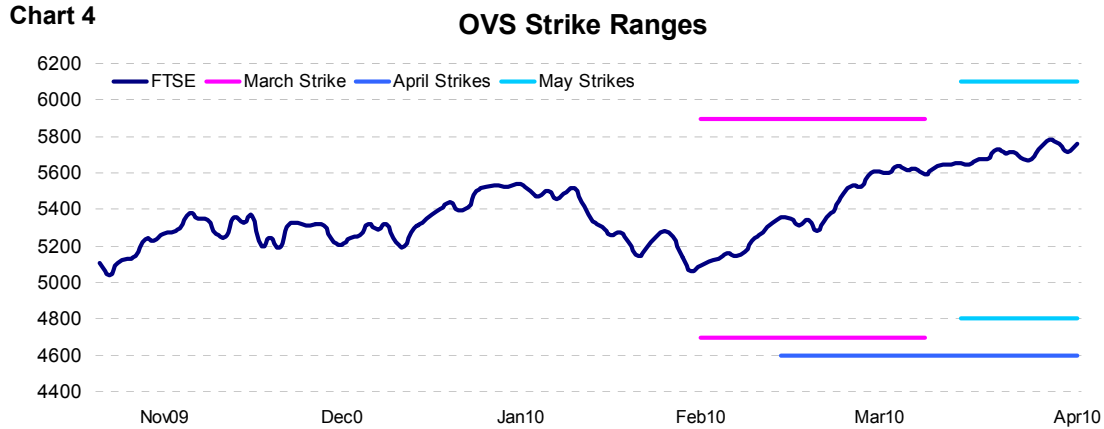


The initial drop in the market dipped well below the March put ranges. March Calls were scrolled down to protect in-the-money put positions which were very close to their stop levels. Again, as a result of the immediate rally the March calls had to be stopped-out at the predetermined level, as dictated by the strategy. The April short call positions, with strikes at 5700, came under pressure as the rally broke the upside ranges. These calls also had to be stopped out as the market continued to push higher into the middle of April.



Current Drawdown for OVS - March 2010 - 4.31%, YTD - 4.20%

Chart 4 shows how close positions written for February and March came to being at- or in-the-money.

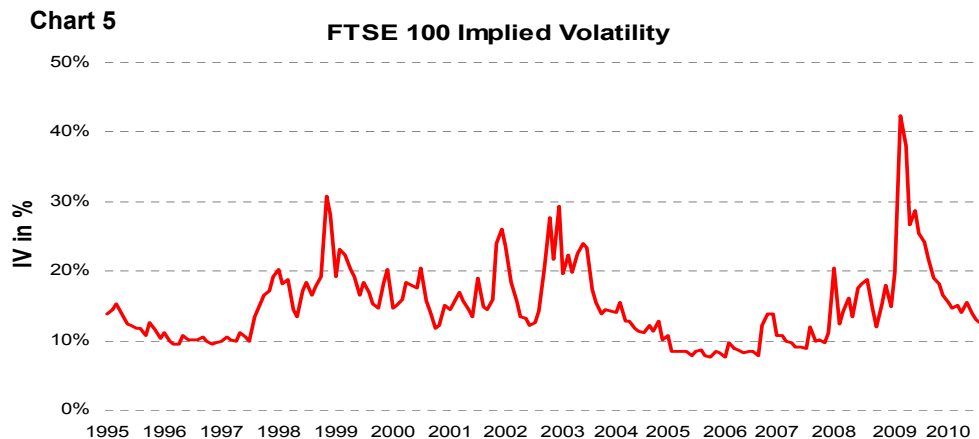


This particular strategy operates a more cautious approach, managing stops tightly and hedging positions using technical indicators. It also imposes a monthly loss limit of no more than 5%. One

such indicator was triggered at the end of January 2010 placing the strategy on a slightly bearish stance. It involved covering short puts and writing calls to keep the strategy delta short. But when the market rallied in February and March stop levels on the short **March calls** were triggered, resulting in realised losses. Such huge 'whipsaws' as seen at the beginning of 2010 are not a frequent feature of the market; over the 12 years since 1997, backtests resulted in around 6 such stop-outs in the strategy.

Strategy Outlook

We do not believe that the price volatility FTSE has experienced from the high in January is a long-term concern, because history shows that whipsaws this violent rarely happen. Oxeye strategies make money from markets staying inside predetermined ranges. Situations occasionally occur when both sides of the range are breached in quick succession. They generally result in short drawdown periods but all the strategies can readjust quickly. IV still remains attractive at levels close to the long term average (**Chart 5**).





**Oxeye
Capital Management Limited**

We expect upside momentum for FTSE to slow somewhat in coming months, and if the various strategy ranges hold, positive performance will follow.

**M.Petherick
April 2010**

**Close Gate House, 47 High Street, Salisbury, Wiltshire, SP1 2PB United Kingdom
Tel: 1722 336388 Fax: 1722 339537 Email: info@oxeye.co.uk www.oxeye.co.uk**

This Publication is issued by Oxeye Capital Management Limited ('Oxeye') which is authorized and regulated by The Financial Services Authority. References to 'we', 'us' and 'our' in this Publication shall mean Oxeye unless otherwise stated. This Publication was prepared and distributed by us for information purposes only, and may contain information, advice, recommendations and/or opinions, which may be used as the basis for trading undertaken by us and our officers, employees, associated and/or affiliated companies. This Publication should not be construed as solicitation, nor as offering advice for the purposes of the purchase or sale of any derivative, security or investment. The information and opinions contained within this Publication were considered by us to be valid when published. This Publication may also contain information that has been provided to us by third parties. The source of such information may be disclosed within this Publication where relevant. Whilst we consider we have taken all reasonable steps to ensure the information is correct, we do not under any circumstances whatsoever, warrant the accuracy or completeness of such information. Any person placing reliance upon this Publication to undertake trading, does so entirely at their own risk, and accordingly, we do not accept any liability as a result, whether direct or indirectly incurred. Derivatives and securities markets may be subject to rapid and unexpected price movements, and past performance is not necessarily a guide to future performance. Currency movements may also have an unfavourable, as well as favourable effect on the value of the underlying investment and/or assets. Investments and/or strategies discussed herein, may not be suitable for all investors. Accordingly, if any person reading this Publication has doubts about their particular suitability, they should consult an independent investment adviser.