

When and When not to Cap

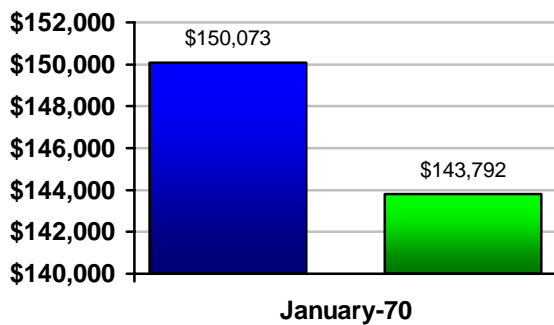
In working with advisors with the software, the topic of caps often arises when comparing EIAs. If you use EIAAnalyst2 you will find that EIAs with Caps typically perform better in periods of lower stock index volatility and the EIAs without caps perform better during periods of high volatility.

You will find that EIAs with caps provide 100% participation and 0% asset fees. Whereas EIAs without caps have asset fees and less than 100% participation and if they do have 100% participation, they have a diluting index credit strategy like: Monthly Averaging or Daily Averaging.

To illustrate the forces, let's look at a couple of scenarios:

The comparison is of a straight Annual Reset Point2Point (**BLUE**) with 7% cap, 100% participation and 0% asset fee, compared to an Annual Reset Daily Averaging (**Green**) with 0% cap, 90% participation, and 0% asset fee.

The Chart below is the ending values of each Index Credit Strategy during the 1960's. As you can see the capped strategy ends with a higher ending value. Using AnalyzeThis, I determined that the Standard Deviation (Risk) was 14.05% (see report) for the S&P 500 index during the 1960's.



The Chart below is the ending values of each Index Credit Strategy during the 1970's. As you can see the uncapped strategy ends with a higher ending value. Using AnalyzeThis I determined that the Standard Deviation (Risk) was 18.55% (see report) for the S&P 500 index during the 1960's.

