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THE STRIKING PRICE

## The Price of Inaction

By STEVEN M. SEARS

*After a 60% market rise, some investors are eerily placid.  
What to do if you're not.*

**WALL STREET IS HAPPY AGAIN, AND ITS** denizens once more are gorging on pricey foods and wines.

Walk past the windows of New York's finest restaurants and you'll see them, smooth-faced and expensively coiffed, engaged in animated conversations in packed rooms. Such is the confidence. Such are the profits in the financial sector. Last October's financial crisis is, like, so last year.

But don't let those pellucid complexions fool you. While plenty of derivatives traders are supping, drinking and cracking wise, they've matured in the past year, and refined their market approach.

Sure, they still make markets to exploit momentum, but two years' worth of analyzing credit-default swaps for early insights into options volatility has given many traders a more nuanced perspective of the stock market.

Rather than just using options to cost-effectively express stock views, or as natural leverage for event-driven strategies, the post-crisis options trader frequently uses what he knows to help clients formulate tactical and strategic opinions not only of stocks, but of sectors and markets, too.

Now, many traders are telling clients -- or acting unilaterally for their own proprietary positions -- to protect large gains in their portfolios.

Some are buying index options to hedge all their investments. "Index protection has been a resounding theme here the last week," the head of hedge-fund derivative sales at a major international bank said last week.



The same type of maneuvering is evident in many components of the Standard & Poor's 500 index.

Selling stock and replacing shares with call options is another burgeoning theme. Others are selling some or all of their high-flying stocks, like [Apple](#) (ticker: AAPL), and buying call options that offer participation in future stock rallies, but with less risk.

This gravitation toward risk aversion at the equity market's highest echelons is an important indicator for investors, even if they don't trade options. At a time when the stock market is up some 60% from its March lows, and "fully invested" seems to be the common expression of many investors, caution from a group typically associated with aggression is reason for pause.

All investors should recognize that this conundrum of buying more stock to make more money, selling to realize some profits, or doing a little bit of both by hedging is more than an abstraction right now. If stock prices swoon before year end, hedging will be the difference between profitability and varying degrees of hardship.

To be sure, now is a good time for bulls to be cautious.

For proof, catch a showing of *Floored*, a documentary about the triumphs, but mostly the tragedies, of trading. We first mentioned this film in late August, and it since has been chosen to premiere at this weekend's Austin Film Festival. Soon, in brilliant color -- on big screens, for everyone to see -- will be indisputable evidence that bulls make money, bears make money, but pigs get slaughtered.

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