

## In the face of plunging market, some firms' portfolios are thriving

Business Courier of Cincinnati - by [Steve Watkins](#) Staff Reporter

The stock market's going-over-Niagara-Falls-in-a-barrel imitation of recent weeks has hammered practically every investor.

But there are at least a couple local investors who are thriving in this environment.

Take Greater Cincinnati's largest locally based mutual fund, the Gateway Fund. Norwood-based Gateway Investment Advisers Inc., which manages the \$5.1 billion fund and a few billion more in separate accounts, thrives on volatility. And there have been few periods as volatile as what the market has seen lately.

In fact, the key measure of stock market volatility, the Chicago Board Options Exchange Volatility Index, or VIX, had its highest reading ever on Sept. 29, when the stock market plunged. The VIX only goes back to 1990, but its high reading made its point.

Gateway benefits because it uses options to hedge its bets. It owns the bulk of the S&P 500. But it sells call options on the S&P 500 index, too. Rogers compares that with owning rental property. Gateway doesn't make as much on the change in value of its asset – S&P 500 stocks – as it does on rental income from that asset. That's its cash flow from writing options.

And people are willing to pay more for those options as volatility rises.

"When we get volatility this high, it really helps us," Gateway CEO Patrick Rogers said. "The higher the premium people will pay and the higher the volatility, the more we earn."

To get a sense of how much the market's volatility jumped, the VIX was at 20.65 at the end of August. On Sept. 29, it leapt to 46, an all-time high.

Gateway also limits its downside by buying put options, which work as an insurance policy would.

Still, Gateway hasn't offset all of the losses of the underlying stocks it holds. But its returns stand out compared to the market. Its fund was down 1 percent in the third quarter, while the S&P 500 fell 8.5 percent. For the past year through Sept. 30, Gateway slid 3.1 percent while the market tanked 22.1 percent.

"We have been able to offset almost all of the market decline," Rogers said.

Meanwhile, another local money manager, Milford-based Winston Advisors Inc., also has cranked out positive results in a tanking market. Its average stock account gained 1.5 percent for the past year through Sept. 15 while the S&P 500 plunged 17.9 percent.

Winston has done that by sticking with high-quality stocks that show powerful financial strength. Many pay large and growing dividends. It also has avoided bonds completely and held a high level of cash. It puts cash in funds that own only U.S. Treasury debt. It also has stayed away from financial and energy stocks.

"Our risk management focus ... continues to be the avoidance of a permanent loss of capital," Chris Donabedian, portfolio manager and co-founder of the firm, said in a news release. "We are always asking where the next disaster might be coming from. We will not buy something just so that we have exposure to a market sector."

### **Merrill Lynch could see broker moves**

Merrill Lynch's deal to sell to Bank of America Corp. could cause some local brokers to switch firms.

Changes in ownership often cause brokers to change jobs, said Richard Curry, local branch manager at brokerage firm Stifel Nicolaus & Co. This will be no different.

"Things will change at Merrill," he said. "They've always been known as being pro-broker. There's no question that some people will go independent and others will join smaller firms. There will certainly be opportunity, and we're hoping to benefit."

Merrill Lynch has 115 local financial advisers.

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