

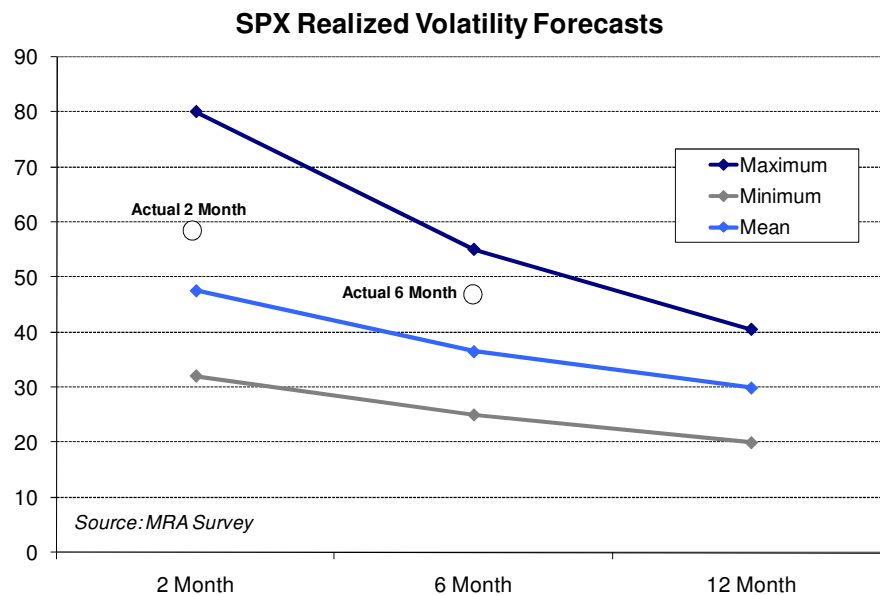
Volatility Forecast Survey

In the third installment of the MRA Volatility Forecast Survey, we polled 75 institutional investors as to expectations around future market volatility and direction. The results speak to the continued theme that the future still holds a high degree of uncertainty. Most of our survey participants expressed a bearish outlook, centered on risks in the credit market and the fiscal policy of Washington. Strong opinions were expressed on the new, active role of government in the market and the implications for risk and earnings.

In April of 2009, we polled our investor clients about the investment climate and the implications for market volatility. We asked the following 4 questions: 1. What will realized volatility in the SPX be for the remainder of 2009 2. What will the high print in the VIX be for the remainder of 2009 3. What will the low print in the VIX be for the remainder of 2009 and 4. What will the level of the SPX be at the end of 2009. The results of that survey are below.

Macro Risk Advisors Volatility Survey: April 2009				
	Realized Volatility	High VIX Print	Low VIX Print	SPX Year End
Average	35.8	51.7	28.1	834.0
High	55.0	77.0	33.0	1028.0
Low	20.0	36.0	20.0	550.0

To recap, late last year (http://www.macroriskadvisors.com/layout/pdf/MRA24_SURVEY.pdf) we did a survey to correspond with the MRA first annual Volatility Roundtable Dinner (see results below). The results of this survey showed a downward sloping set of expectations for volatility over the next year. So far, the mean prediction has been a bit lower than the actual result of realized SPX volatility. However, our respondents correctly predicted that realized volatility was peaking late last year even with uncertainty at unprecedented levels.



Following the largest monthly gain in the SPX in the past nine years, volatility as measured by the VIX still sits in the mid 30s as the market remains at early January levels. The interesting aspect of the VIX is that the market is still pricing in high volatility to close out the year as the termstructure of VIX futures is flat. The role that the government is now playing within the equity markets has never been more evident and has been one of the key catalysts of volatility. The uncertainty about future government action supports implied volatility since this new risk source remains largely unhedgeable. Thus the government is powerful in both the “reactive” and “forward looking” components of implied volatility. The government’s role is evolving and it is difficult to foresee its future direction.

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The list of “one-offs” from the Fed or Treasury is now quite long and leaves the market guessing. These one-offs include the commercial paper backstop to the lending facility (Maiden Lane2) for AIG to the bond issuance (FDIC insured) by financials. In addition, the backstop of C, GMAC, BAC, and most recently the pre-packaged bankruptcy of Chrysler are all separately negotiated, one off structures for which the economics to the shareholder are vastly different. In total the government has commitments of \$12.1 trillion and spent \$2.5 trillion so far as part of the bailout.

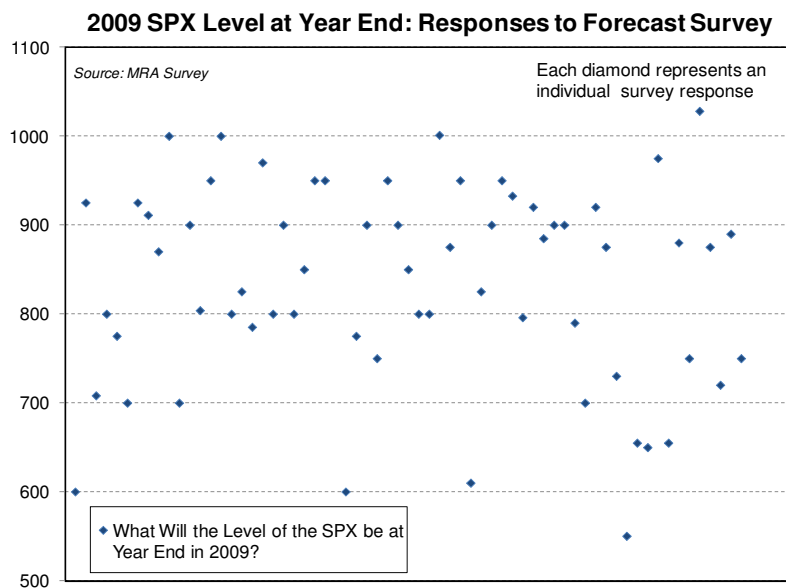
What a Difference 6 Months Makes

Comparing the results of the most recent survey to that taken last November, there are some striking resemblances despite the November survey occurring after a significant leg down while the most recent survey comes in the midst of a large rally. The forecast for average realized volatility of the SPX has remained basically the same at approximately 36. In addition, the average for the high print in the VIX is also nearly identical to the November survey (53.9 in the November '08 survey compared to 51.7 in the April '09). However, the most striking difference is the forecast for the SPX ending value. In November, participants were predicting on average the SPX would be at 1057 with the highest prediction an astronomical 1532. It is clear that expectations for a quick turnaround have definitely shifted as the highest prediction for the most recent survey is 1028, actually 29 handles below the average from November.

Feedback from the Survey

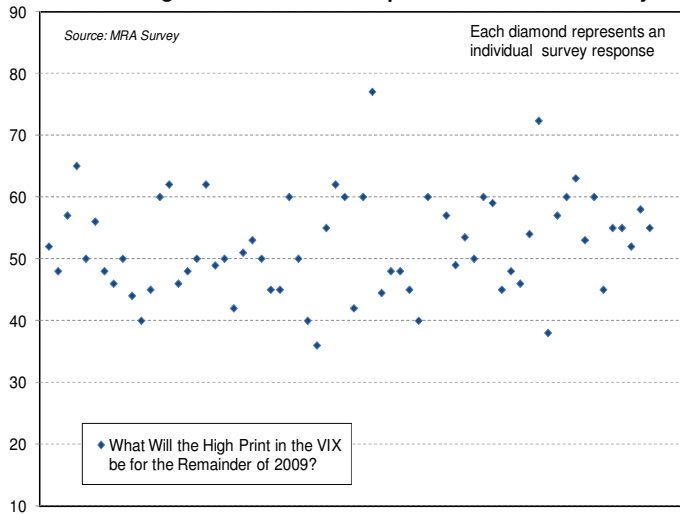
The most common source of uncertainty among survey participants was the macro credit environment followed closely by Washington Policy, Fed and Treasury Rescue Programs and single stock fundamentals. The credit market has begun to open as the “green shoots” of recovery have sprung including issuance of several successful IPOs and the first junk bond issues in nearly 6 months. But clearly there are still significant risks with the most glaring being the fact that unemployment has not bottomed and most economists predict the unemployment rate hitting 10% by year-end. Survey respondents were hesitant to believe a sustained bull-run is upon us as banks remain short of strong capital bases and housing has still not bottomed. Until the US economy finds some solid footing in the form of job creation, the roots of recovery are still a ways away and consequently volatility within the market should remain elevated.

Our survey brings to light all of the uncertainty surrounding market professionals in the current economic climate. This uncertainty comes in many forms. Liquidity/funding risk along with solvency/counterparty risk have been prominent sources of uncertainty. Lastly, the greater involvement of the Government in the financial markets creates a new source of uncertainty. In the end, the market will need time to recover and for the next “real” bull rally to begin. In the charts below and on the page that follows we present responses to our survey.

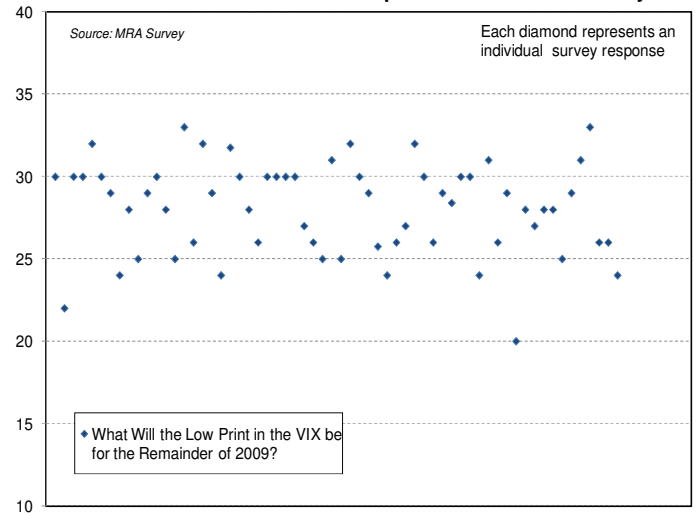


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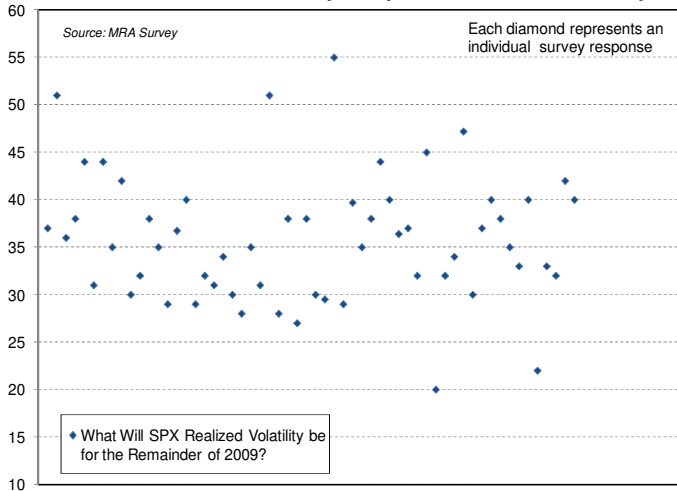
2009 High Print in the VIX: Responses to Forecast Survey



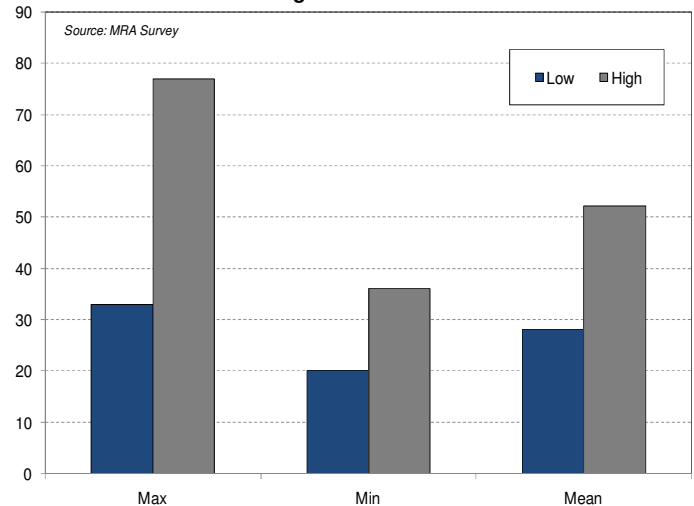
2009 Low Print in the VIX: Responses to Forecast Survey



2009 SPX Realized Volatility: Responses to Forecast Survey



2009 VIX High and Low Print Forecast



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