



Helping investors to profit in 'The Age of Turbulence'

Stock market volatility is increasing. As former Federal Reserve chairman Alan Greenspan noted in September, the issue is not simply a bubble in US house prices, but 'two dozen' other bubbles around the world.

Unprecedented interdependency of the major economies means that investors everywhere are likely to face a rolling thunder of large and small market crises over the medium term.

The title of Mr Greenspan's memoirs – *The Age of Turbulence* – captures exactly the current mood. Having seen the credit-related events of the summer – coupled with additional danger signals such as a supply-driven jump in the price of oil – a high proportion of investors will have accepted that increased volatility lies ahead. The question they are asking now is how to manage it.

Recognising the unique challenges of accelerating volatility, Credit Suisse, using HOLT's proprietary valuation framework, has created the HS Market Neutral Index. True market neutrality is a compelling stance in volatile conditions. It enables investors to capture the alpha characteristics of the best-performing companies, without getting dragged down in the market's beta riptides and undercurrents.

The HS Market Neutral Index utilises the extensive proprietary framework of HOLT, Credit Suisse's corporate performance and valuation advisory service. The top 275 North American stocks by market cap, 300 European stocks by market cap and liquidity and 175 Japanese stocks by market cap are selected from the HOLT database. Candidates are then divided into 10 sectors – energy, materials, industrials, consumer discretionary, consumer staples, healthcare, financials, information technology, telecoms and utilities – and five currency regions – the US, Canada, the UK, eurozone and Japan – creating 50 sector/region subsets.

The long portfolio is constructed by selecting the top-ranking 10% of stocks in each sector; candidates for inclusion must also fall

	Correlation to HS Market Neutral	Realised volatility	Sharpe Ratio
HS Market Neutral	–	6.3%	1.84
MSCI World	-0.14	13.4%	0.19
S&P GSCI ER	0.02	20.6%	0.20
DJ Lehman Bond Comp Global	0.09	3.9%	0.32

01 January 1996–28 September 2007

within the top third of the respective regional subset. The short portfolio is then created by matching the selected longs with the lowest ranking stocks in their corresponding sector and region, thereby ensuring market neutrality.

Because of the way the index is constructed, the product is remarkably free of currency, sector and regional bias and has very low correlation to other asset classes. By pairing longs and shorts, the index works like a storm anchor, using the very elements of volatility to work against each other to increase stability and improve performance.

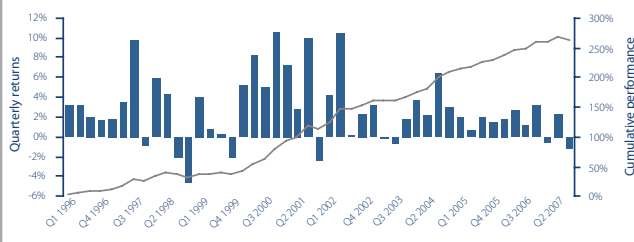
Most importantly, perhaps, it performs. The HS Market Neutral Index has a Sharpe ratio of 1.84 and shows positive returns for each of the last 11 years (and all but nine of the last 44 quarters). The cumulative return since 1996 exceeds 263%, compared to just under 123% for MSCI World.

These strong and clearly demonstrated performance characteristics mean that the index can work as a powerful engine for structured investment products aimed at the private investor, as well as within institutional strategies. The index is not a 'black box' and demonstrates a transparent methodology, offering additional comfort to intermediaries seeking to offer hedge fund-type strategies to retail investors.

For a demonstration or more information on the HS Market Neutral Index, please contact your Credit Suisse sales person or e-mail hs.indices@credit-suisse.com www.credit-suisse.com/HOLTmethodology

HS Market Neutral Index performance in depth

Credit Suisse's suite of HOLTSelect indices has a strong history of generating alpha and significantly outperforming certain major benchmark indices worldwide. The HS Market Neutral Index has exhibited consistent excess returns quarter by quarter, year by year, since 1996.



Index returns are measured in USD over calendar quarters and represent the excess return over the risk-free rate (01 January 1996–28 September 2007)

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