

From: Richard Kahn <[REDACTED]>

To: Jeffrey Epstein <jeevacation@gmail.com>

Subject: Fwd: Using Russell puts as a proxy to short HY market. [C]

Date: Wed, 02 Sep 2015 10:17:54 +0000

Inline-Images: image003.jpg; image004.png; image005.png; image006.png

One good trade idea over two years so Daniel feels the need to resend.....

Sent from my iPhone

Begin forwarded message:

From: Daniel Sabba <[REDACTED]>

Date: September 1, 2015 at 7:53:30 PM EDT

To: "jeffrey E." <jeevacation@gmail.com>

Cc: Paul Morris <[REDACTED]>, Stewart Oldfield <[REDACTED]>, Vahe Stepanian <[REDACTED]>, "Ariane Dwyer" <[REDACTED]>, "Richard Kahn" <[REDACTED]>

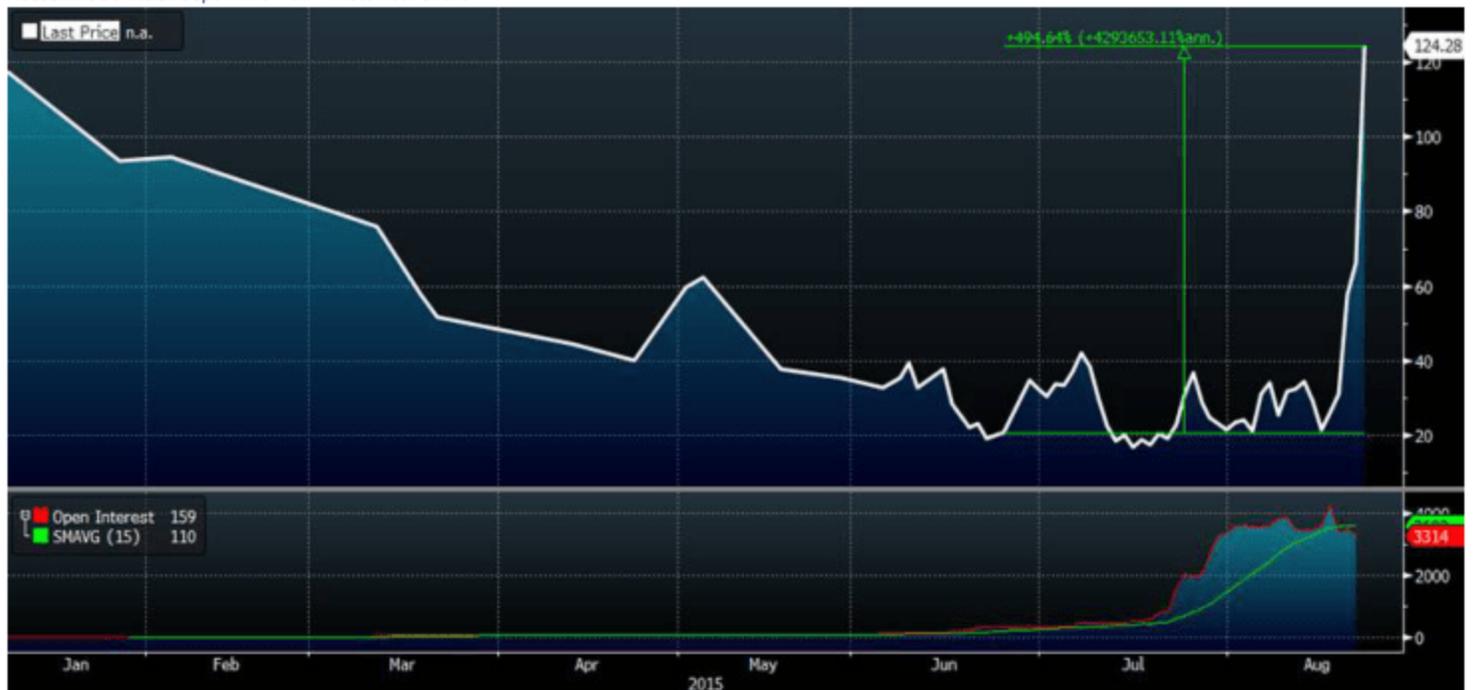
Subject: RE: Using Russell puts as a proxy to short HY market. [C]

Classification: **Confidential**

Trying to keep it honest, we looked into PnL of this idea today. It wasn't bad.

The idea was to use 3-month, 95% Russell 2000 index (RTY) puts to hedge a High Yield (HY) selloff. On 6/25, with RTY at ~1283 – clients could have purchased Sept 1220 puts @ ~\$20/contract. Given market volatility last week, clients could have unwound the trade at ~\$120/contract

Russell 2000 Index Sept 1220 Put – Historical chart



From: Daniel Sabba

Sent: Thursday, June 25, 2015 10:52 AM

To: jeffrey E.

Cc: Paul Morris; Stewart Oldfield; Vahe Stepanian; Ariane Dwyer; Richard Kahn

Subject: Using Russell puts as a proxy to short HY market. [C]

Classification: **Confidential**

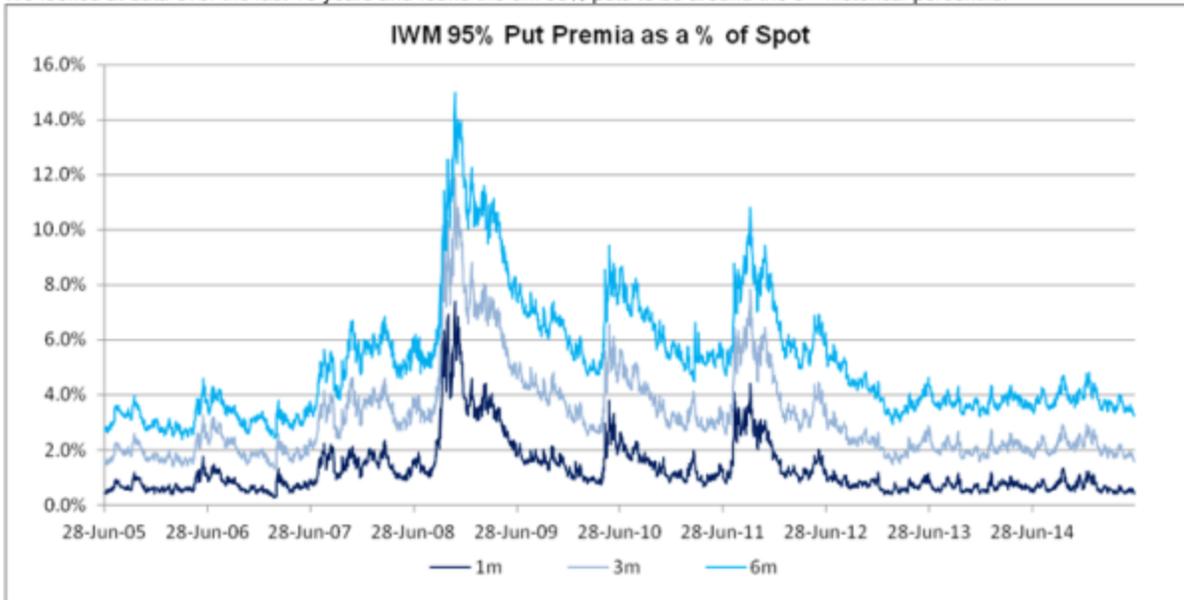
Jeffrey, I called you yesterday and left a message with [REDACTED].

A few large investors have gone on the record over the past days calling for frothiness in the High Yield market. The rationale typically used is the richness of the asset class and recent proliferation of covenant-lite deals.

We have been working on using Russell (and IWM US ETFs) puts to hedge for a HY sell-off and would like to discuss with you. Russell risk premium can be seen as tied to HY and put options are historically cheap (see below).

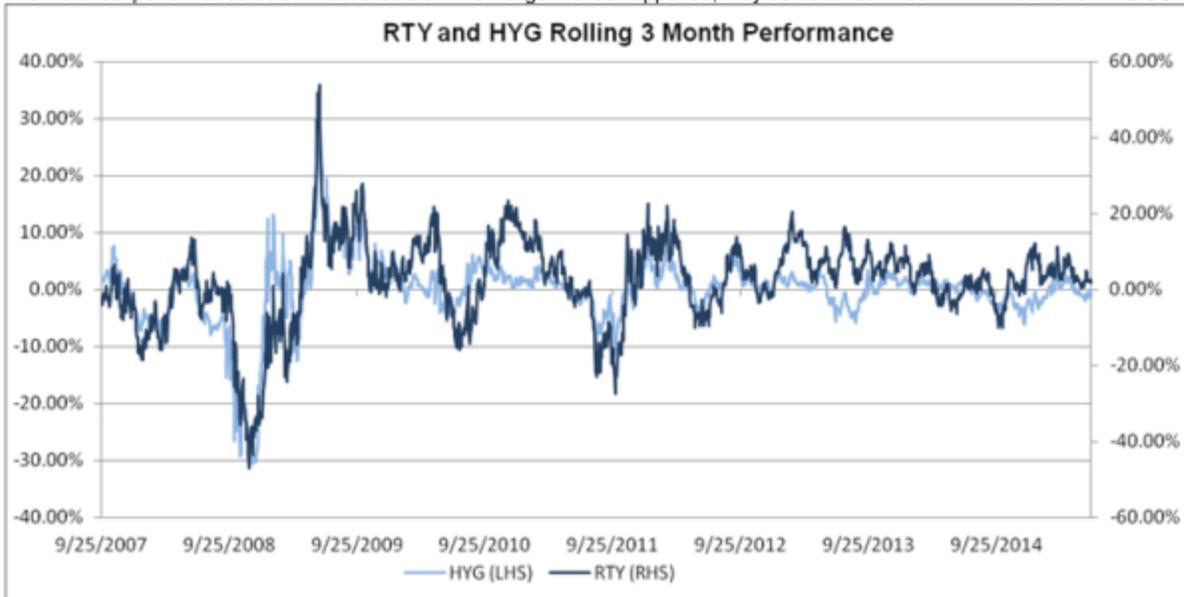
IWM 95% put premia in historical lows (see premiums for 1m, 3m and 6m expiries).

We looked at data over the last 10 years and found the 3m 95% puts to be around the 3rd historical percentile.

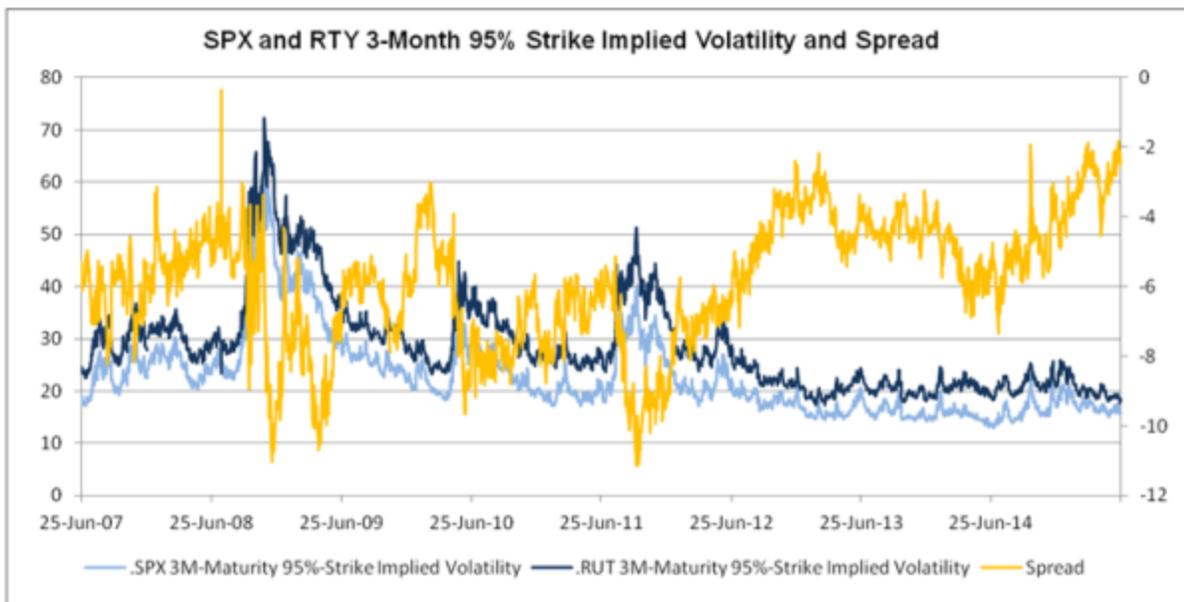


Historical rolling 3-month performance of HYG US ETF and RTY Index.

The historical performance below illustrates that when large moves happened, they co-occurred in both RTY Index and HYG US ETF (since 2007).



Russell vol in historical lows and historically cheap to S&P (in relative absolute terms for 95% strike 3m vols)



Looking forward to discussing further.
 Regards,
 Daniel

Daniel Sabba
 Key Client Partners
 Deutsche Bank Securities Inc.
 Tel. +1 212 454 0857
 Mobile +1 917 374 4185
 Email [REDACTED]

 This communication may contain confidential and/or privileged information. If you are not the intended recipient (or have received this communication in error) please notify the sender immediately and destroy this communication. Any unauthorized copying, disclosure or distribution of the material in this communication is strictly forbidden.

Deutsche Bank does not render legal or tax advice, and the information contained in this communication should not be regarded as such.