Equities

Risk and Return of Equity Index Collar Strategies (Supplement)

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Roni Israelov and Matthew Klein of AQR analyze the collar strategy's profit-and- loss impact on a portfolio to understand its precise dynamics. In decomposing equity index collar returns, they find that the expected return is lower than that of the underlying index, primarily because the strategy earns less equity risk premium. They also find that collars with net long volatility exposure may further reduce expected returns because of the volatility risk premium. The authors then compare the collar to other ways of reducing downside risk, such as selling equity, buying only a put option, or selling only a call option to construct a covered call. Their analysis in Risk and Return of Equity Index Collar Strategies, published in the Summer 2016 issue of *The Journal of Alternative Investments*, shows that historically, the collar strategy is a relatively poor performer.

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