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Volatility as an Asset Class

Obvious Benefits and Hidden Risks

**Polish
Studies in
Economics**

Edited by Ryszard Kokoszczyński

Volume 4

Juliusz Jabłecki / Ryszard Kokoszczyński / Paweł Sakowski / Robert
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Contents

Introduction.....	9
1 Volatility and Its Estimation.....	15
1.1 Introduction	15
1.2 Volatility measurement	17
1.2.1 Alternative volatility estimators	20
1.2.2 High-frequency data.....	24
1.2.3 Concluding remarks	26
1.3 Volatility forecasting.....	27
1.3.1 Time series analysis	28
1.3.2 Forecasts implied by option prices	32
1.3.3 Concluding remarks	36
1.4 Volatility surface and option pricing.....	36
1.4.1 Local volatility model.....	38
1.4.2 Stochastic volatility models	41
1.4.3 Concluding remarks	42
1.5 Conclusions	43
2 Overview of volatility derivatives.....	45
2.1 Volatility exposure in a delta-hedged option	45
2.2 Variance swaps	47
2.3 VIX and VIX futures	53
2.4 VIX options	57
2.5 The economics of volatility derivatives	63
3 Options Delta Hedging with No Options at All	65
3.1 Introduction	65
3.2 Options as volatility instruments – replicating realized volatility.....	66
3.3 Volatility arbitrage based on various frequencies of data.....	66
3.4 Methodology and data	69
3.5 Empirical research	75
3.5.1 S&P500 index – the most developed market	75
3.5.2 The case for other developed markets (FTSE, NIKKEI225, DAX)	77
3.5.3 The case for emerging markets (WIG20, KOSPI, BOVESPA)	80
3.6 Summary.....	81

4	Volatility Derivatives in Portfolio Optimization	83
4.1	Introduction	83
4.2	The merits of investing in volatility	83
4.3	Volatility in portfolio optimization	85
4.3.1	Benchmark portfolio	85
4.3.2	Long position in implied volatility	86
4.3.3	Short position in realized volatility	91
4.3.4	A combination of long and short position in volatility.....	94
4.4	Summary.....	94
5	Benefits of Using Volatility Futures in Investment Strategies.....	97
5.1	Introduction	97
5.2	Volatility as a traded asset.....	98
5.3	Markowitz model – a short review	101
5.4	Black-Littermann model – a short review	104
5.5	Markowitz model – application	107
5.5.1	Data used	107
5.5.2	Simulation	108
5.5.3	Empirical results	110
5.6	Black-Litterman model – application	118
5.6.1	Data used	118
5.6.2	Simulation	118
5.6.3	Empirical results	120
5.7	Summary.....	125
6	Predictive Properties of the Volatility Term Structure.....	127
6.1	Introduction	127
6.2	Volatility term structure of VIX futures – predictive properties based on regression model.....	127
6.2.1	Motivation.....	127
6.2.2	Literature review	128
6.2.3	Methodology and data	130
6.2.4	Results	131
6.2.5	Remarks.....	135
6.3	Predicting VIX – an investment model approach	136
6.3.1	Motivation.....	136
6.3.2	Data description.....	137
6.3.3	Methodology	138

6.3.4 Measures of volatility term structure 140

6.3.5 Forecasting properties of volatility term structure..... 144

6.3.6 Investment model 149

6.4 Summary..... 156

Conclusions..... 159

List of figures 163

List of tables 167

Bibliography..... 169

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6.2.4	Results	131
6.2.5	Remarks.....	135
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6.3.2	Data description.....	137
6.3.3	Methodology	138

6.3.4 Measures of volatility term structure 140

6.3.5 Forecasting properties of volatility term structure..... 144

6.3.6 Investment model 149

6.4 Summary..... 156

Conclusions..... 159

List of figures 163

List of tables 167

Bibliography..... 169

Introduction

This book presents some practical aspects of a relatively novel asset class – volatility¹. We believe that there is no need to argue that volatility does constitute a new asset class. The reason for this is not only that the number of standard volatility derivatives has been steadily growing since the mid-2000s but more importantly a constant development of the huge number of more complex derivatives through which investors can gain indirect exposure to various types of volatility.

Initially, trading volatility meant trading futures (2004) and options (2006) contracts written on the VIX. Then VSTOXX index futures were introduced by EUREX in 2009 and after a few years VSTOXX index options as well². Later on, the large group of VIX exchange-traded products was proposed by Barclays Bank, which also was the first institution to issue notes on the S&P 500 VIX Short-Term and Mid-Term total return futures indexes in 2009. Currently, ETF Database shows 16 US – traded ETFs in the volatility category³. Additionally, there is a wide range of volatility derivatives beyond these based on VIX index. Some of them are listed below:

1. VXEWS, OVX, GVZ, VXN, RVX, VXST, VXEEM and VXTYN index futures quoted on CFE exchange: <http://www.cboe.com/micro/volatility/introduction.aspx>
2. VNKY index futures quoted on OSAKA exchange: <http://www.ose.or.jp/e/>
3. VHSI index futures quoted on Hong Kong exchange: <http://www.hkex.com.hk/eng/index.htm>
4. India VIX index futures quoted on NSE: http://www.nseindia.com/live_market/dynaContent/live_watch/vix_home_page.htm
5. S&P/ASX200 VIX index futures quoted on ASX: <http://www.asx.com.au/index.htm>

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2 <http://www.eurexchange.com/exchange-en/products/vol/vol/14566/>.

3 <http://etfdb.com/etfdb-category/volatility/>.