

# Debate One:

Flexible volatility exposure vs relative value  
volatility strategies

**Moderator:**

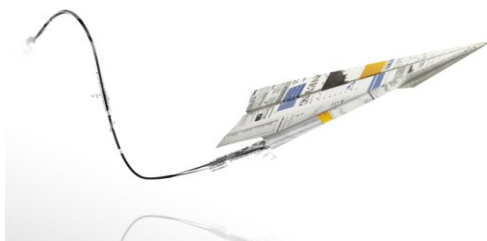
Dan Mikulskis

**Speakers:**

George Castrounis  
Eric Hermitte

## Volatility strategies

## Directional Investment Process

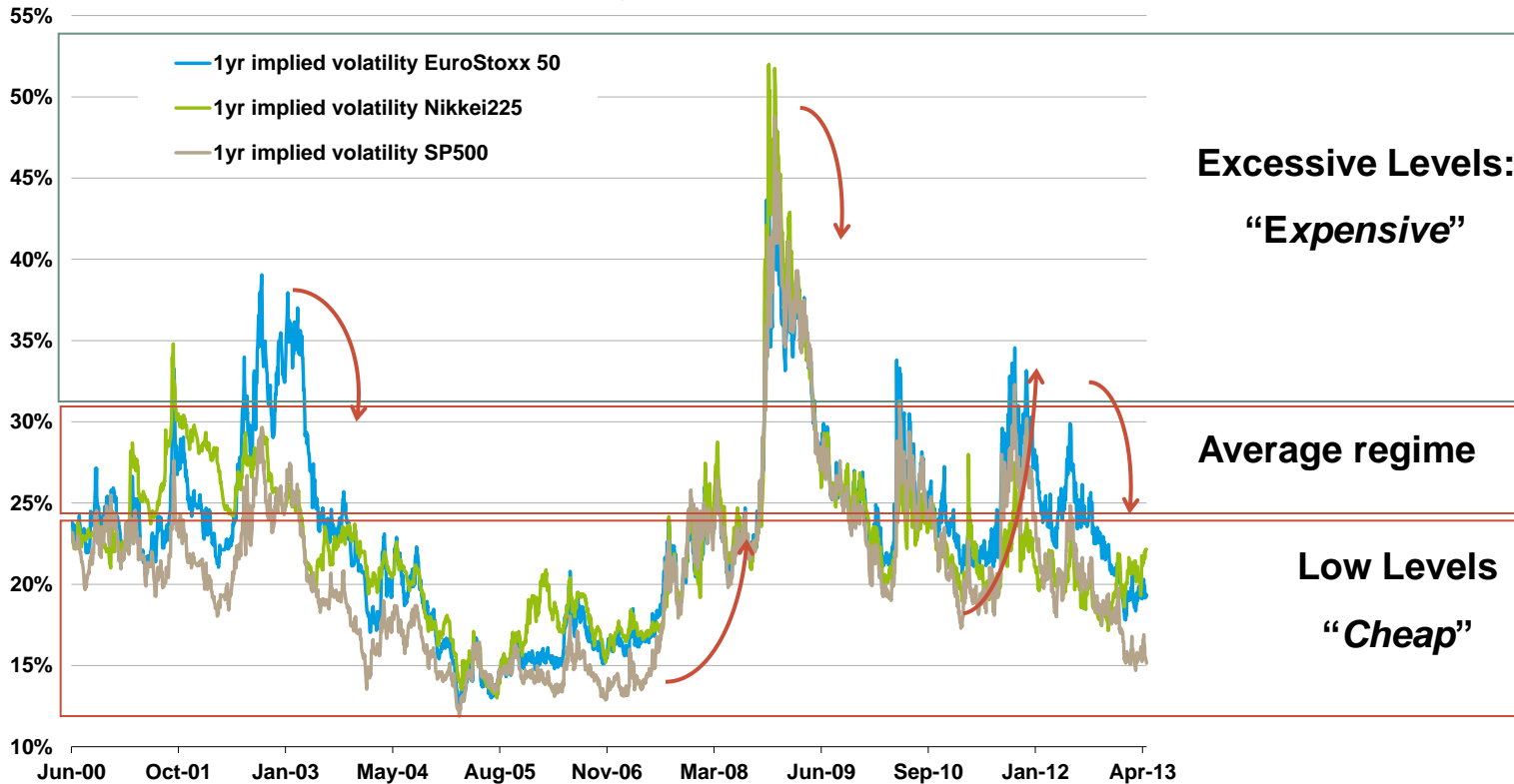


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# Volatility: its mean reverting behavior

Over the long term, volatility has a strong mean reverting behavior:

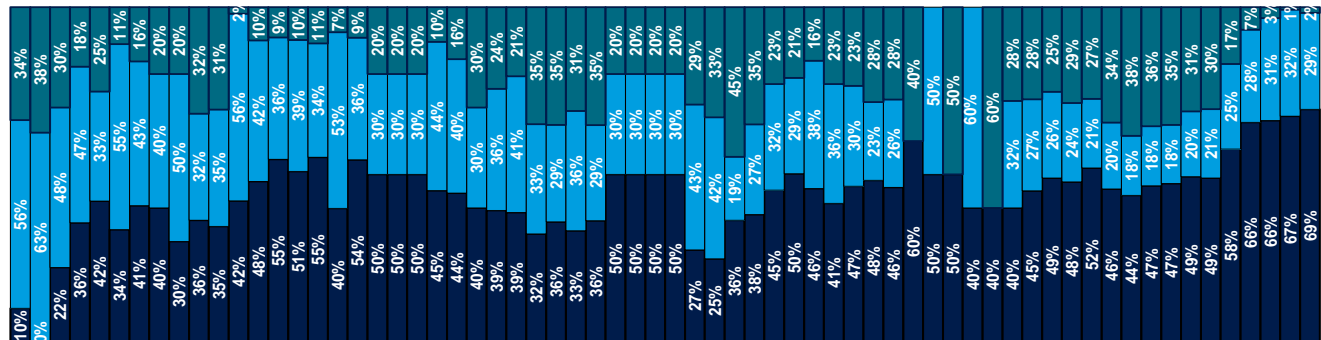
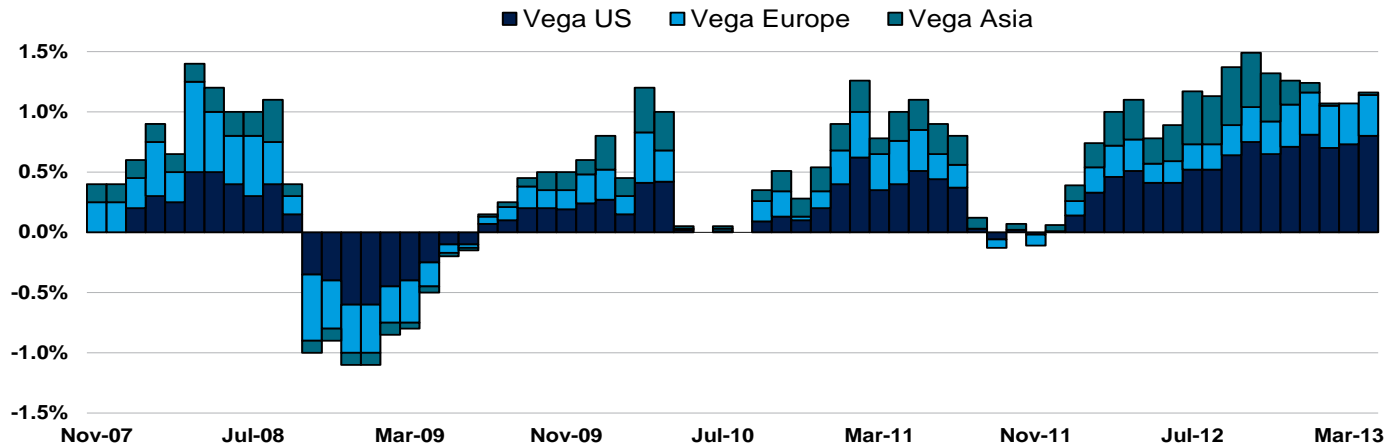
- Amundi’s innovation: active management of volatility
- Adjustable exposure to volatility in function of its level



- Low volatility regime: buy volatility to benefit from “cheap” levels
- High volatility regime: take advantage of excessive levels to sell volatility

# An active management is required to perform

- Implied volatilities of the three main stock indices, although correlated, may diverge from time to time. Performance opportunities in tactical shifts in the allocation.
- The spread between SPX and NKY volatility is currently as wide as post the Fukushima March 2011 events



Source: Amundi. As of 30/04/2013  
Vega level as of end of each month, allocation based on last 5 days.

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What would you expect the performance of a short volatility biased fund to be in August 2011

1. Less than -10%
2. -10% to 0%
3. 0% to 10%
4. More than 10%

# What would you expect the performance of a short-volatility biased fund to be in August 2011

1. Less than -10% | 0%

2. -10% to 0% | 0%

3. 0% to 10% | 0%

4. More than 10% | 0%

What would you expect the performance of a long-volatility biased fund to be in August 2011



1. Less than -10%
2. -10 to 0%
3. 0% to +10%
4. More than +10%



# What would you expect the performance of a long-volatility biased fund to be in August 2011





Would you expect a long-volatility manager to derive most of their profits from ... ?

1. Gamma Profits / Realized Volatility
2. Vega Profits / Implied Volatility
3. Directional positions in markets
4. Not sure or don't understand the definitions above

# Would you expect a long-volatility manager to derive most of their profits from ... ?

- |   |    |
|---|----|
| 1. Gamma Profits / Realized Volatility                | 0% |
| 2. Vega Profits / Implied Volatility                  | 0% |
| 3. Directional positions in markets                   | 0% |
| 4. Not sure or don't understand the definitions above | 0% |

Would you expect a volatility manager to be mainly trading ... ?



0

1. Equity Options

2. Equity Volatility Futures like VIX or VDAX

3. FX Options

4. Interest Rate Volatility Products

# Would you expect a volatility manager to be mainly trading ... ?

1. Equity Options

0%

2. Equity Volatility Futures like VIX  
or VDAX

0%

3. FX Options

0%

4. Interest Rate Volatility Products

0%



0

A relative value volatility trade might consist of ...

1. Long volatility in equities / Short volatility in FX
2. Long short-dated expiry options / Short long-dated expiries
3. Long put options and short call options
4. Not sure

# A relative value volatility trade might consist of ...

- |   |    |
|---|----|
| 1. Long volatility in equities /<br>Short volatility in FX        | 0% |
| 2. Long short-dated expiry options /<br>Short long-dated expiries | 0% |
| 3. Long put options and short<br>call options                     | 0% |
| 4. Not sure   | 0% |