The University of Chicago
Department of Statistics

Master's Seminar

OLIVER RANDALL
Department of Statistics
The University of Chicago

Variance Futures and Correcting the VIX

TUESDAY, July 31, 2007 at 5:00 PM
110 Eckhart Hall, 5734 S. University Avenue

ABSTRACT

Increasingly, financial industry views price volatility as an asset class in its own right, with opportunities both for strategic trading as well as hedging. We first consider a trading strategy in variance futures (VT) on the S&P 500. Though fitting even a simple time-series is very profitable, we see that the returns are correlated with the direction and volatility of the underlying index. We also consider the relationship between the VT and VIX indices, and possible statistical arbitrage opportunities. Applying the method of Jiang and Tian (2005), we also examine the discrepancy between the CBOEs implementation of calculating the VIX and a bias-corrected method.

Information about building access for persons with disabilities may be obtained in advance by calling Karen Gonzalez (Department Administrator and Assistant to Chair) at 773.702.8335 or by email (karen@galton.uchicago.edu).