



LET'S TALK ABOUT...

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Investing in volatility

In the past years phases of high volatility have been followed by calmer market conditions, meaning volatility as two directional in relation to primary market trends. May we remind that the volatility of a financial instrument, index, market as a whole, is the statistical measure of its historical movements, usually in terms of its standard deviation. That is, roughly speaking, the expression of its average variation around an average value during a certain period of time.

Such bi-directional volatility has concerned both equity and fixed income markets, despite the latters being traditionally considered as less turbulent, at least until now, as well as commodity markets. Financial engineering, that is always searching for new investment opportunities, has considered whether volatility could perform the function of relative performance stabilization in a portfolio through different and adverse market conditions. Such was indeed the declared goal of the hedge fund industry, before its dramatic crash in 2008 and 2009. Volatility was then to become a new actual asset class to be included in portfolios in order to smooth their returns and volatility-investing funds have soon been created, with low correlations to their reference markets, e.g. the Eurostoxx50 or S&P500: they manage *long-short* volatility strategies, taking advantage of both short and longer term variations. Their track records actually show good risk-return ratios in most cases, pretty regular and over-the-average results (also in absolute terms) through variable market conditions, with low correlations to market moves during storming phases, as was the case in 2008.- *GLT*

The views expressed are not necessarily those of the Swiss Association of Asset Managers
