GRANT SAMUEL
FUNDS MANAGEMENT

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MEDIA RELEASE

Busting the myths about market volatility

The idea that market volatility is bad and something that investors need to protect themselves against, is outdated and needs to be challenged, says Simon Ho, chief investment officer of Triple3 Partners.

"There are some persistent myths around volatility that endure regardless of markets and trends. By busting these myths, and understanding the true nature of volatility and its impact, investors can benefit from real and sustained portfolio diversification," Mr Ho says.

The five most common volatility myths include:

1. The market has been very volatile in recent years

"Probably one of the most persistent volatility myths of recent times is that markets have been volatile and that investors need to be cautious," Mr Ho says.

"In fact, the VIX index shows the recent period since 2015 has been the most non volatile periods of the market's history."

The VIX Index is a measure of expected volatility on the S&P500 Index over the next 30 days. High VIX readings mean investors see significant risk that the market will move sharply, either up or down.

"Tracking a synthetic VIX index that has been created to track back to 1928, we find that market volatility is in fact at 100 year lows. The VIX is at 9, which is unprecedented, it has never been lower. There hasn't really been a less volatile period since the S&P began.

"Investors suffer from recency bias and media headlines do not help. While there have been volatility spikes – market movements on the back of unexpected developments such as Brexit or Trump – there has not been an ongoing period of volatility in the market beyond spikes of a few hours, or at most, a few days, during the past few years," Mr Ho said.

2. Volatility is bad for investor portfolios

“Far from being bad for a portfolio, volatility can in fact enhance portfolio returns.

“There is no question that market volatility and falling shares prices can be bad for long-only investors over the short term.”

But volatility as an asset class is a different consideration.

“Volatility has emerged as a distinct asset class in recent years that offers a largely untapped source of alpha that can offset losses in the underlying portfolio.

“As an asset class volatility is good for a portfolio in that it is highly negatively correlated to equities. It can be accessed through the VIX Index with the use of options and volatility derivatives and it affords an investor protection in downturns.

“The average investor is long on shares and not many short the market. Market volatility creates opportunities for investors who short the market, and who make a call on which shares will fall in value – as well as which shares will increase.”

3. High volatility equals negative returns

“With the advent of VIX futures options and exchange traded products, high volatility does not necessarily mean a negative return for investors,” says Mr Ho.

“The level of volatility tends to be negatively correlated to equity indices, indicating that when equity markets fall, volatility tends to rise and vice versa.

“Options on the VIX Index allow investors to access this feature, which cannot be as reliably harnessed in other asset classes, making VIX an ideally suited instrument for targeting returns that are negatively correlated to the S&P500.”

4. Volatility is a good reason to stay out of the market

Mr Ho says volatility actually represents a great opportunity to generate alpha in the VIX futures and options market.

“The VIX was a brand new product in 2004. VIX options have been one of the fastest growing option markets since then, and these days it is one of the most liquidly traded listed derivatives in the world.

“VIX today is front and centre of the conversation in major markets around the world and volatility options are in fact driving investors into the market. Interestingly it is retail usage of these products – particularly exchange traded products - that has driven this seismic growth.

“The most popular ETP in the US and one of the top 5 most liquidly traded securities is the VXX, which is a VIX options based product.”

5. Volatile markets mean a bubble is forming

“The exact opposite of this statement is true. Volatility is usually associated with a piercing of the bubble as opposed to a harbinger of the bubble. Non volatile markets - such as what we are experiencing now - are more likely to indicate a bubble is forming.

“For instance, while there is no volatility in the share market, definite bubbles are forming in bond markets and with house prices.”

Debunking these five common myths would help investors better understand the true impact of volatility on their portfolios, and the opportunities it can create to generate long-term returns, Mr Ho says.

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Triple3 Partners *is an independent research and investment firm based in Sydney that specialises in volatility as an asset class and provides volatility strategies to institutional clients. This includes alpha strategies, volatility overlay and volatility research.*

Triple3 invests in portfolios of options in order to tap the alpha potential inherent in volatility. Using a proprietary quantitative strategy, Triple3 helps investors enhance returns and manage portfolio volatility.

Over the past seven years Triple3 has developed quantitative forecasting techniques and portfolio allocation algorithms, which represent a prominent source of its competitive edge. For more information please visit the website: www.triple3p.com

Grant Samuel Funds Management (GSFM) *was established in July 2007 as a subsidiary of the Grant Samuel Group. In November 2016 CI Financial Corp (CI) purchased an 80 per cent stake in the business. CI is a diversified wealth management firm with assets under management of CAD$162.1 billion (as of 30 September, 2017). GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.*

Since 2007, GSFM has formed alliances with following investment managers to distribute investment products to Australian and New Zealand clients:

- *New York based Epoch Investment Partners, Inc.*
- *Tribeca Investment Partners, a successful Australian boutique manager*
- *Payden & Rygel, a Los Angeles based independent investment management firm*
- *Triple Three Partners Pty Ltd (Triple3) a boutique research and investment management firm*
- *Munro Partners, an independent global equity manager*
- *London-based Man Group plc*

GSFM currently represents $6.8 billion funds under management (as at 31 October 2017). For more information about GSFM please visit the website: www.gsfm.com.au.