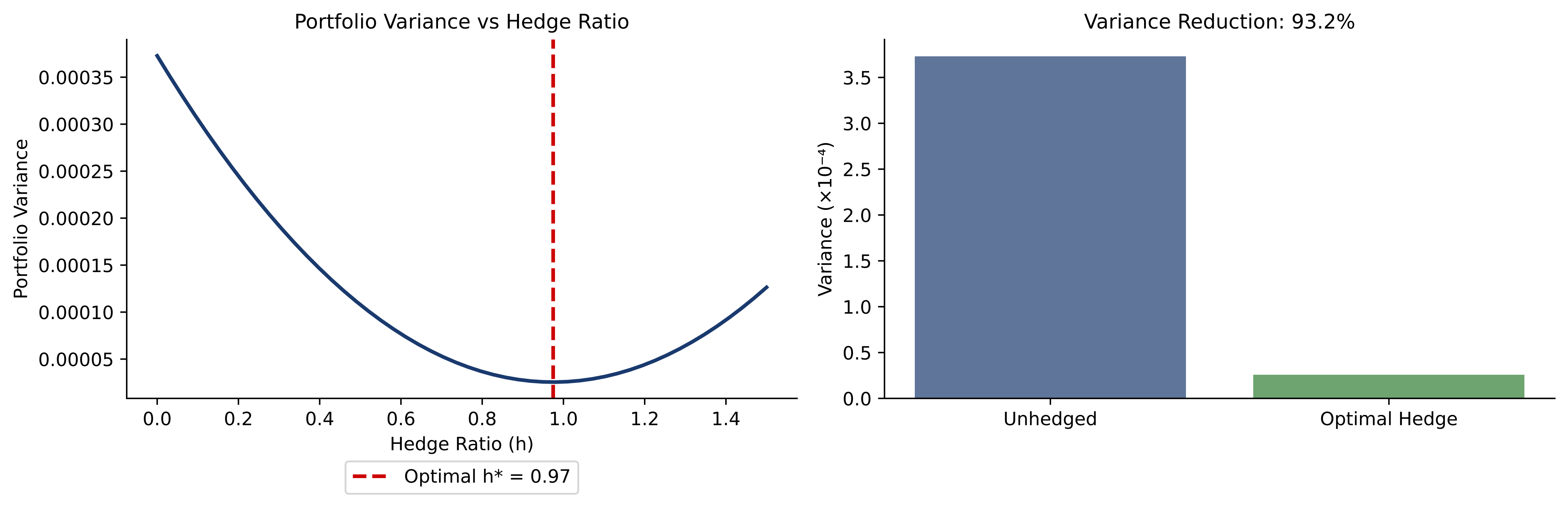
Portfolio Variance vs Hedge Ratio
Portfolio Variance
0.00035
0.00030
0.00025
0.00020
0.00015
0.00010
0.00005
0.0
0.2
0.4
0.6
0.8
1.0
1.2
1.4
Hedge Ratio (h)
Optimal h* = 0.97
Variance Reduction: 93.2%
Variance (×10⁻⁴)
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Unhedged
Optimal Hedge