Robot James 🤖🏖️ @therobotjames

Jun 24 · 8 tweets · therobotjames/status/1540190487369613312

Doing some equity index vol tourism.

Common thing heard: "vol has been realizing significantly over implied, good to be long vega here"

Any quantifiable, non-subjective truth to that?

Assume not much. All market inefficiencies are tiny.

Good to look tho...

What is a person assuming when they say this?

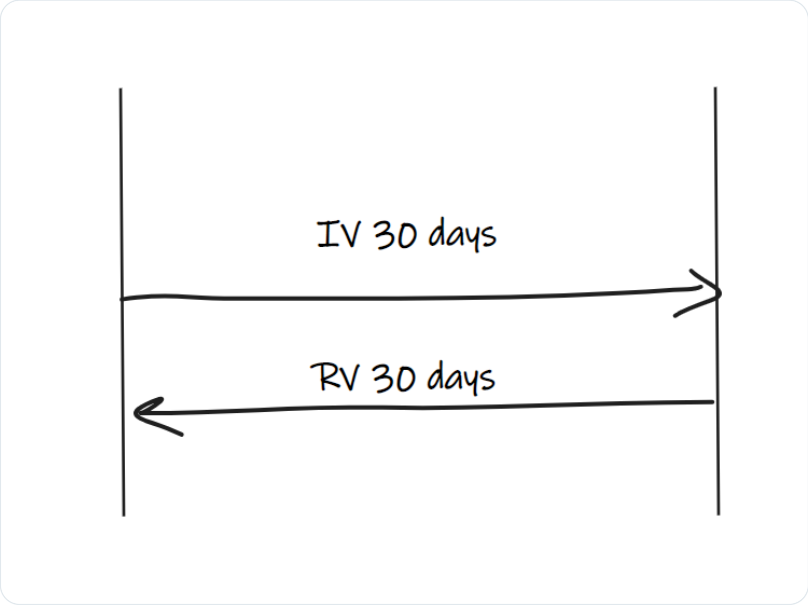
They're assuming:
- if vol is realizing above implied now that will continue to be the case for a bit
- if vol is realizing below implied now that will continue to be the case for a bit

We can look for historical evidence of this

The first thing you need to know about this kind of thing is we have little data to work with.

But there ain't much we can do about that - let's work with what we've got.

We define a VRP measure as "ATM IV at a point in time, less the vol that realizes over that tenor"

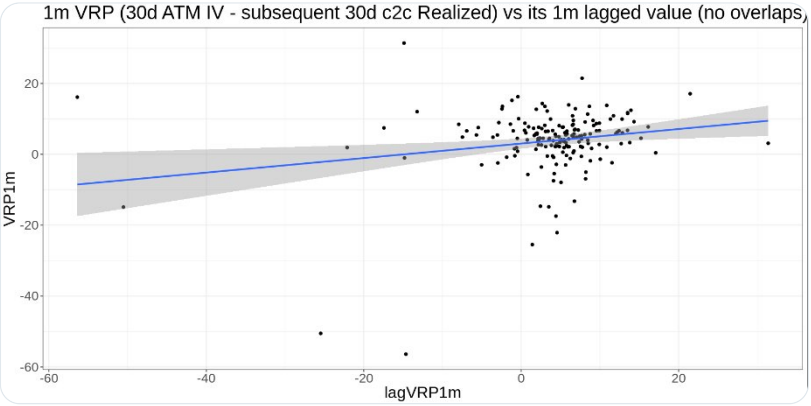


We calculate that, then throw away all the overlapping observations, so we have one data point every 30 days.

Then plot each observation against the observation month before.

We don't have much data, but it's supportive.

Maybe voltwit frens aren't just pretty faces after all!

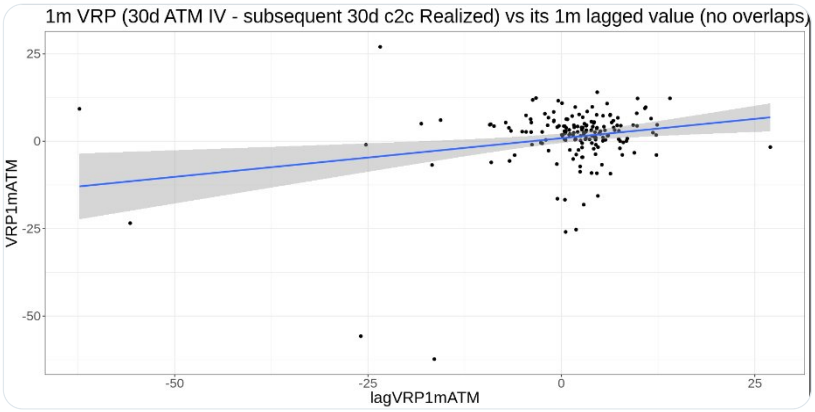


(Chart label is a lie here. I actually ended up using VIX cos I'm lazy and just looking at relative relationships)

@Dpro2298 sent me some data (🙏❤️) so i will recreate this properly in the morning when the Merlot has worn off.

@Dpro2298 This chart is what it says now. (Thanks to @Dpro2298 for being an absolute hero 🙏)

Unsurprisingly, it looks extremely similar, just shifted down a bit. (And with slightly fewer observations.)



A general point.

I feel people worry too much about trying to control for all sources of bias in their data.

As long as you understand in what way your data is biasing your analysis, it's usually better to proceed than to work on the perfect data set.

You can always loop back

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