

The Epidemiology of Volatility



There are common pathways in the transmission of viruses and volatility. Volatility, like infectious disease, is transmitted through common sources of infection. Sources of volatility transmission include investor psychology, market contagion and liquidity pressures. The science of epidemiology is a useful mechanism to examine market contagion and volatility spikes – both UP and down.

The fact is, most of what's written about trading volatility is simply wrong. Cboe's VIX Index is a crowd-sourced estimate for the anticipated volatility of the S&P 500. But the meaning of a given VIX level is frequently misunderstood.¹ A key trait of volatility (realized, or implied) is that it has a tendency to revert to its mean.²

Assuming implied volatility is an unbiased estimate of future realized volatility is an often-made mistake. Distortions in prices of VIX-linked instruments and equity indices create opportunities for investors willing to take the other side of volatility trades. There

are proven ways to mitigate volatility and “vaccinate” portfolios from left tail-risk.

The Cboe Volatility Index - VIX, VIX futures and options provide a window into estimates of expected volatility-- such estimates often have inverse correlation to market price-movement. The time-varying volatility of volatility is also a significant risk factor which affects the cross-section and the time-series of index and VIX option returns, beyond the volatility risk itself.

Virus & volatility are hazardous to investors' health and wealth. There's a nagging concern that subsequent waves of viral variants and volatility infections will occur. Volatility and contagion can quite literally make investors and their advisors sick. A growing body of epidemiological evidence has documented “excess monthly deaths” of medical fallout from recessions.³

The presenters will discuss proven ways to manage and mitigate portfolio volatility and avoid the high performance drag and cost associated with traditional tail-risk strategy.



The Epidemiology of Volatility Transmission & Management includes:

- ❖ R₀ (naught) Transmission Volatility
- ❖ Common Vectors of Transmission
- ❖ VIX & Mispriced Variance Premiums
- ❖ Long VOL Unsuitable Buy-&-Hold
- ❖ “Vol Loop Thesis”/Revert to Mean
- ❖ Panel discussion--Volatility Traders
- ❖ Audience Questions & Answers
- ❖ Key Takeaways/Action Steps



Rick Roche, CAIA

Rick Roche is a Managing Director at Little Harbor Advisors, LLC. Little Harbor Advisors (LHA) is a sponsor of alternative investment strategies. Rick has 41-years' experience in investment management.

He holds Series 3, 7, 63 and 65 licenses. Rick earned his Chartered Alternative Investment Analyst (CAIA) charter designation in 2014.

Rick is a Member of the New York Alternative Investment RoundTable (NYAIR) and the Society of Quantitative Analysts -SQA (2017-18). He earned a B.A.-History from the University of Dayton.

Rick Roche has consulted 95 major financial companies and has personally trained 75,500 financial sales professionals in customer loyalty marketing, capital market & product trends and investor behavior.

From 4Q 2017 thru 2021, Rick was the featured speaker at 80 FPA Association (CFP) chapters, CAIA chapters or CFA Society events. His *Machine Learning in Investment Management* presentation has been enthusiastically received by thousands of credentialed advisors, chartered analysts and financial advisors.

He has a unique ability to synthesize large amounts of academic and technical research and translate into *actionable* intelligence. His extensive investment background, encyclopedic command of market theory and staccato delivery have earned him the *Top-Rated Speaker* rating.

From Jan-1977 to Jan-1980, Rick served two terms in the Massachusetts House of Representatives representing Springfield.

Volatility Trader Panelists:

In addition to content on "Epidemiology of Volatility Transmission & Management", this continuing education program features a panel discussion with two experienced volatility traders whose biographies follow.



Michael A. Thompson, CFA.

Michael (Mike) Thompson has over 23 years' experience constructing and managing portfolios with a focus on volatility and risk management strategies.

Mike originally codeveloped a VIX trading strategy with his brother, D. Matthew Thompson, in Oct-2011 while employed at Hills Capital as a portfolio manager. In 2013, Michael Thompson began trading the VIX trading strategy directly in the futures

market for the proprietary trading desk of ED&F Man Ltd and as a commodity trading advisor, first as a principal of Advocate Asset Management LLC and subsequently for Typhon Capital Management LLC.

In 2015, he became the Chief Investment Officer at Kaizen Advisory LLC, where he helped to launch the securities products currently managed by Thompson Capital.

In 2019, Michael and Matthew Thompson formed Thompson Capital Management, LLC, where Michael Thompson is the Chief Investment Officer, Chief Compliance Officer, Portfolio Manager, and a trader. Thompson Capital became a majority-owned subsidiary of Little Harbor Advisors, LLC in 2020.

Michael Thompson received his Bachelor of Science in Economics from the University of Illinois in 1996 and is a member of the CFA Society of Chicago.



D. Matthew (Matt) Thompson, CFA

¹ Edwards, PhD, T., and Preston, H., "Reading VIX®: Does VIX Predict Future Volatility?", S&P Dow Jones Indices, Nov-2017.

² Ibid, "Reading VIX®", Nov-2017

Matt Thompson has over 20 years of capital markets and investing experience, focusing on futures trading with an emphasis on VIX-related exchange-traded products (ETPs).

From Jul-2013 through Sep-2014, Matt traded the VIX trading strategy directly in the futures market for the proprietary trading desk of ED&F Man Ltd and as a commodity trading advisor (CTA), first as a principal of Advocate Asset Management LLC and subsequently for Typhon Capital Management LLC.

In 2015, Matthew Thompson became the Director of Research at Kaizen Advisory LLC. Matthew Thompson is the Director of Research, Portfolio Manager, and a trader. Matt Thompson received his Bachelor of Science in Economics from the University of Illinois in 1999 and is a member of the CFA Society of Chicago.

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³ Coates, J. M. & Herbert, J., "Endogenous Steroids and Financial Risk Taking on a London Trading floor", PNAS.org, Apr 22, 2008.