

VOLUME AND VOLATILITY IN THE FUTURES AND OPTIONS MARKETS

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This presentation examines the relationships and characteristics of volume and volatility in futures and options. A key emphasis is the investigation of four types of traders (CTI volume) and their relationship to volatility. CTI trader volume is important both to practitioners (traders have made fortunes by determining who is buying and selling) and to academics (“who causes volatility”). Daigler and Wiley (JF, 1999) determined that the general public (CTI4) is associated with higher volatility, while institutional traders (CTI2) often reduce volatility. Also, unexpected volume is more important than expected volume in terms of its effect on volatility. We also examine the response of CTI volume to a shock in volatility and vice-versa. Other topics we examine are the distribution of volume (by type of trader), whether the dealers on the floor are market makers or speculators, which of the CTI groups are associated with the implied volatility skew, and if options are purchased (sold) at too high (too low) a price and by whom. Finally, we examine the risk-return benefits of a combination of the VIX and the S&P 500 and the persistence of various measures of volatility.

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