Benn Eifert 🥷 🏴‍☠️
@bennpeifert

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a theme that has come up a great deal this year is the perception that equity index tail hedges "aren't working" important thing to keep in mind here is the robustness of a specific strategy to the path and speed of a market selloff tail hedge or "flash crash hedge" ?

stocks experienced a slow, choppy grind down, S&P down mid twenties percent at trough, analogous to the feel of the tech bust of 2002-03 but much smaller last few market stress periods were much faster and more explosive - March 2020 we saw S&P down 34% in three weeks

there is nothing inherent in markets that means equities only crash in a hurry. look at the historical data; long grinding bear markets are a thing also think about why the tech bust analogy is not a coincidence

f you buy short term, out of the money hedges, like the often-cited PPUT Index (which trades 1-month S&P puts 5% below the current index level), you can easily lose money on your hedges in a slower selloff

also, buying a single tranche of hedges at a single maturity and strike, like PPUT, exposes you to massive random short-term path risk. if equities rally into expiration, then sell off again, you could lose all your hedge premium. vs if we sell off into expiration, then rally.

why would you intentionally take massive idiosyncratic risk to short term market path like this? do not focus on benchmark indices like this, they are extraordinarily specific and unrepresentative

high strike vix calls are another common favorite because of how well they performed in 2018 and 2020. but VIX is a volatility index, in a slow grind down where the market is not exceedingly volatile, you may just lose all your hedge premium while your equities lose too

generally one needs to think about a mix of exposures that are not wildly over-sensitive to path this isn't complicated. its not about dynamically hedging your skewga

simple illustration, imagine you bought a 10% out of the money June22 S&P put at the beginning of the year with S&P around 4800, you probably paid 120 (2%), and SPX 3666 at expiration meant you made 7x your premium.

not saying "that was the best hedge", just illustrating that there is no complicated explanation about path and skew and kurtosis or whatever that is going to cause your vanilla longer term put option to somehow not work when the underlying goes down between now and maturity

proxy hedging with complicated short term volatility exposures, on the other hand, might work great in a monster flash crash but terribly in a more protracted selloff