Swissquote Conference on Asset Management 2011: Program

Thursday, 20th October	Venue: Polydôme at EPFL	
09:00-10:00	*Registration/welcome coffee*	
10:00-10:30	**Welcome Address Swissquote**	
10:30-11:30	**Suleyman Basak**	Asset Prices and Institutional Investors (Discussant: Julien Hugonnier)
11:30-12:30	**Ioannis Karatzas**	Hybrid Atlas Models (Discussant: Semyon Malamud)
12:30-14:15	*Lunch break*	
14:15-15:15	**Rene Carmona**	Risk Management in the Energy Markets (Discussant: Helyette Geman)
15:15-15:45	*Coffee break*	
15:45-16:45	**Jerome Detemple**	A Structural Model of Dynamic Market Timing: Theory and Estimation (Discussant: Felix Kübler)
16:45-17:45	**Pedro Santa-Clara**	Optimal Option Portfolio Strategies (Discussant: Pierre Collin-Dufresne)
17:45-19:00	*Aperitif*	

Friday, 21th October	Venue: Polydôme at EPFL	
08:15-09:00	*Welcome coffee*	
09:00-10:00	**Mogens Steffensen**	On the Theory of Continuous-Time Recursive Utility (Discussant: Hansjörg Albrecher)
10:00-10:30	*Coffee break*	
10:30-11:30	**Josef Zechner**	The Term Structure of CDS Spreads and the Cross-Section of Stock Returns (Discussant: Patrick Gagliardini)
11:30-12:30	**Attilio Meucci**	Fully Flexible Views: Theory and Practice (Discussant: Tony Berrada)
12:30-14:15	*Lunch break*	
14:15-15:15	**Andreas Schlatter**	Keynote Speech: The Asset Management Industry - A Glance Backwards and Forwards
15:15-15:45	*Coffee break*	
15:45-17:15	**Panel Discussion**	Current Challenges in Asset Management Helyette Geman, Attilo Meucci, Andreas Schlatter, Josef Zechner; Damir Filipovic (moderator)
17:15-17:30	**Closing of the Conference**	

Abstracts (in alphabetic order of speakers)

Suleyman Basak, London Business School

Title: Asset Prices and Institutional Investors

Abstract: Empirical evidence indicates that trades by institutional investors have sizable effects on asset prices, generating phenomena such as index effects, asset-class effects and others. It is difficult to explain such phenomena within standard representative-agent asset pricing models. In this paper, we consider an economy populated by institutional investors alongside standard retail investors. Institutions care about their performance relative to a certain index. Our framework is tractable, admitting exact closed-form expressions, and produces the following analytical results. We find that institutions optimally tilt their portfolios towards stocks that comprise their benchmark index. The resulting price pressure boosts index stocks, while leaving nonindex stocks unaffected. By demanding a higher fraction of risky stocks than retail investors, institutions amplify the index stock volatilities and aggregate stock market volatility, and give rise to countercyclical Sharpe ratios. Trades by institutions induce excess correlations among stocks that belong to their benchmark index, generating an asset-class effect. Institutions finance their additional purchases of index stocks by taking on leverage. A policy prescription that calls for a reduction in leverage, while reducing the riskiness of institutional portfolios, would also reduce the ability of institutions to tilt their portfolios towards index stocks, depressing the index level.

Rene Carmona, Princeton University

Title: Risk Management in the Energy Markets

Abstract: After a short introduction to some of the risk management issues in the energy markets, we concentrate on the use of spread options for speculation (Calendar Spreads), real option asset valuation (Tolling Contracts), and credit enhancement. The new technical results concern the analysis of models providing implied correlation smiles which can be calibrated to transaction data, structural models for electricity prices which can be used to better price clean and dirty spreads, and least squares Monte Carlo implementations of stochastic problems which can be used to value gas storage facilities.

Jerome Detemple, Boston University

Title: A Structural Model of Dynamic Market Timing: Theory and Estimation

Abstract: This paper derives and analyzes dynamic timing strategies of a fund manager with private information. Endogenous timing strategies generated by various information structures and skills, and associated fund styles are identified. Endogenous fund returns are characterized in the public information of an uninformed observer. Econometric methods for style analysis are developed. New tests of timing skill are proposed and their detection ability is analyzed.

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Ioannis Karatzas, Columbia University

Title: Hybrid Atlas Models

Abstract: We study Atlas-type models of equity markets with local characteristics that depend on both name and rank, and in ways that induce a stable capital distribution. Ergodic properties and rankings of processes are examined with reference to the theory of reflected Brownian motions in polyhedral domains. In the context of such models we discuss properties of various investment strategies, including the so-called growth-optimal and universal portfolios.

Attilo Meucci, Kepos Capital LP

Title: Fully Flexible Views: Theory and Practice

Abstract: We propose a unified methodology to input non-linear views from any number of users in fully general non-normal markets, and perform, among others, stress-testing, scenario analysis, and ranking allocation. We walk the reader through the theory and we detail an extremely efficient algorithm to easily implement this methodology under fully general assumptions. As it turns out, no repricing is ever necessary, hence the methodology can be readily applied to books with complex derivatives. We also present an analytical solution, useful for benchmarking, which per se generalizes notable previous results. Code illustrating this methodology in practice is available through author's homepage.

Pedro Santa-Clara, Universidade Nova de Lisboa

Title: Optimal Option Portfolio Strategies

Abstract: Options should play an important role in asset allocation. They allow for kernel spanning and provide access to additional (priced) risk factors such as stochastic volatility and negative jumps. Unfortunately, traditional methods of asset allocation (e.g. mean-variance optimization) are not adequate for options because the distribution of returns is non-normal and the short sample of option returns available makes it difficult to estimate the distribution. We propose a method to optimize option portfolios that solves these limitations. An out-of-sample exercise is performed and we show that, even when transaction costs are incorporated, our portfolio strategy delivers an annualized Sharpe ratio of 0.59 between January 1996 and September 2008.

Andreas Schlatter, UBS

Keynote Speech: The Asset Management Industry - A Glance Backwards and Forwards

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Mogens Steffensen, University of Copenhagen

Title: On the Theory of Continuous-Time Recursive Utility

Abstract: In this paper we establish a connection between continuous-time recursive utility and the notion of consistency studied, in particular, in connection with the non-linear objective, mean-variance. We propose a time-global optimization problem and show that the optimal time-consistent solution to this time-global problem is closely related to the standard recursive utility solution which is defined via differential equations. The two approaches are, to some extent, equivalent. Standard continuous-time recursive utility was developed for Brownian markets, and a generalization is complicated. Our approach contributes with insight in the notion of recursive utility and lightens up a relatively simple path that potentially gives access to results for general Markovian markets.

Josef Zechner, Vienna University of Economics and Business

Title: The Term Structure of CDS Spreads and the Cross-Section of Stock Returns

Abstract: We analyze whether distress risk is priced in equity returns by exploring the joint cross-section of credit default swaps (CDS) and stocks for US firms from 2001 to 2010. While previous research uses either real-world or risk-neutral default probabilities, we argue that credit risk premia priced in stock returns depend on both. We extract credit risk premia from the term structure of CDS spreads using a single-factor model in the spirit of Cochrane and Piazzesi (2005). Consistent with predictions from structural models, our empirical results reveal a strong link between credit and equity markets that is driven by expected credit risk premia. We find that CDS spreads contain information beyond size and book-to-market but that equity excess returns of credit risk premium-sorted portfolios are highest for small firms and value stocks. Our results are robust across pre-crisis and crisis sub-samples.

Panel Discussion

Topic: Current Challenges in Asset Management

Discussants: Helyette Geman, Attilo Meucci, Andreas Schlatter, Josef Zechner; Damir Filipovic (moderator)