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April 2018

The FCO Cockpit Global Bubble Status Report

April 2018 – Jan-Christian Gerlach, Didier Sornette & Ke Wu (Chair of Entrepreneurial Risks)

The Financial Crisis Observatory (FCO) monthly report discusses the historical evolution of bubbles in and between different asset classes and geographies. It is the result of an extensive analysis done on the historical time series of about 450 systemic assets and about 850 single stocks. The systemic assets are bond, equity and commodity indices, as well as a selection of currency pairs. The single stocks are mainly US and European equities.

In the first part of this report, we present the state of the world, based on the analysis of the systemic assets. In the second part, we zoom in on the bubble behavior of single stocks and discuss some specific cases.

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Should long term investors time volatility?

April 2018 – Tyler Muir (Assistant Professor of Finance, UCLA)

A long-term investor who ignores variation in volatility gives up the equivalent of 2.4% of wealth per year. This result holds for a wide range of parameters that are consistent with U.S. stock market data and it is robust to estimation uncertainty. We propose and test a new channel, the volatility-composition channel, for how investment horizon interacts with volatility timing. Investors respond substantially less to volatility variation if the amount of mean-reversion in returns disproportionately increases with volatility and also if mean reversion happens quickly. We find that these conditions are unlikely to hold in the data.

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Government certainty index and stock market outcomes

April 2018 – Yosef Bonaparte (University of Colorado – Department of Finance)

We compose a Government Certainty Index (GCX), which measures a government's ability to execute its own policy; encompass president seniority, political capital, and calculus. We show that GCX co-moves positively with stock market performance and negatively (mostly) with stock market volatility (for high GCX). The intuition of our finding is driven from the asset pricing behavioral and risk prospective: stronger government reflects consensus of the people; thus investors overreact to strong leadership and prices go up (return); and a stronger government provides clarity and less uncertainty (risk). We find that the effect of GCX varies across sectors and deciles, and on average, GCX is higher during a second-term presidency and for Democratic presidents by 6.7%, which sheds light on understanding the presidential puzzle. A trading strategy that exploits the GCX demand-based return predictability generates an annualized risk-adjusted performance of 4.8%. Altogether, GCX enhances our understanding of overall uncertainty and a valuable predictor for the financial market.

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A wealth management perspective on factor premia and the value of downside protection

April 2018 – Louis Scott (Founder of Kierma Advisors) & Stefano Cavaglia (Head of Investment research at Findex)

This article links two current topical investment themes: goals-based investment strategies and factor premia or smart beta investment strategies. Goals-based strategies suggest that the central investment problem for an aspiring retiree is accumulating sufficient wealth to meet retirement spending needs. Smart beta or factorpremia-based strategies are traditionally motivated as sources of return that can be manufactured relatively cheaply and in large scale because they are linked to a behavioral or structural inefficiency. This article aims to show that factor premia have a secondary but significantly more important benefit in that they are generally countercyclical, thus providing downside protection in a portfolio context. The size and significance of this benefit is overlooked in traditional one-period portfolio construction problems; however, it can hardly be ignored in the context of a multiperiod wealth accumulation strategy.

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French central bank formalises responsible investment stance

April 2018 – Susanna Rust (Contributing editor at IPE)

The French central bank has adopted a responsible investment charter that will govern the management of some €20bn of assets. The charter is part of Banque de France's vision of its corporate social responsibility, which it formally documented in a charter at the end of 2016. The central bank said its responsible investment charter reflected an ambition to be "exemplary" in how it took into account its corporate social responsibility "in all its dimensions" and applied this to its role as an institutional investor. The responsible investment policy covers the bank's own funds, including pension assets. A spokesperson for the bank told IPE that it applied to close to €20bn of assets as at the end of December, around two-thirds of which were in portfolios linked to pension obligations.

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Consultant-recommended funds do not beat market, says watchdog

April 2018- Susanna Rust (Contributing editor at IPE)

Actively-managed investment funds recommended by investment consultants do not meaningfully outperform their benchmarks, according to the competition watchdog investing the UK consultancy sector. The Competition and Markets Authority (CMA) said it found no evidence that, net of asset management fees, products rated as 'Buy' by consultants outperformed either their respective benchmarks or unrated products to a statistically significant extent on average. This was based on an empirical analysis of actively-managed asset management products in a database maintained by eVestment, the CMA said. On average, recommended products outperformed their benchmarks only on a gross-of-fees basis. Passively-managed products were excluded from the analysis.

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Fed risk rating system unifies stress testing and 3LOD

April 2018 – Steve Marlin (wstaff writer on the risk management desk)

Traditionally, US colleges evaluate student admission applications by coldly ranking them according to grades, scores on standardised tests and extracurricular activities, using these metrics to come up with an overall score. Recently, however, schools have started playing down the importance of grades and test scores, and given greater emphasis to qualitative factors such as leadership ability, overcoming hardships and celebrating unique talents.

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The Risks of High-Tech Trash

April 2018 – Paul Hodgson (Risk Management magazine)

In 2016, the world generated 44.7 million metric tons of e-waste, equivalent to almost 4,500 Eiffel Towers, according to the Global E-Waste Monitor 2017, a joint report produced by the United Nations University, the International Telecommunication Union and the International Solid Waste Association. This amount is expected to increase to 52.2 million metric tons by 2021. In the United States, the Environmental Protection Agency (EPA) has estimated that electronic waste is growing two to three times faster than any other waste stream.

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UPCOMING EVENTS



31st International Congress of Actuaries (ICA 2018)

4th–8th June 2018, Berlin, Germany

Like no other metropolis in Europe, Germany's capital symbolizes the breakdown of old structures and the beginning of a new era of understanding and cooperation. May the unique atmosphere of a city that has re-invented itself in recent decades inspire you to be an integral part of a vibrant International Congress of Actuaries in 2018. Come and join colleagues working together, at an event without cultural or geographical barriers.

[Find out more about the ICA 2018](#)



"Derivatives Challenge, John Hull award"

April 9th - June 11th, On-Line

Torneo único en su tipo en México y LatAm. Tiene una duración de dos meses. Durante este tiempo podrás operar contratos de Futuros y Opciones listados en el Mercado Mexicano de Derivados, MexDer. Los precios y cotizaciones son en tiempo real y durante el torneo, los participantes registrados en tiempo y forma deberán de operar y generar el máximo rendimiento en su portafolio para lograr posicionarse entre los 3 primeros lugares y hacerse acreedores de diversos premios.

[For More Information and Registration](#)



UPCOMING EVENTS



Risk Management & Trading Conference

June 20th-23th, Hotel Westin Santa Fé, México

One of the primary objectives of this Conference is to provide through Workshops, Presentations and Round Table Discussions the latest advances in Risk Management, Trading, Technology and Market Regulation, and to transmit all this knowledge by local and international authorities in the field.

Some other objectives of this Conference are to explain and show in detail the current situation and where the Global Financial Industry is heading, advances in Pricing, and how intermediaries and direct or indirect participants of markets need to be prepared to remain competitive in spite of the new challenges and paradigms that are present nowadays.

[For More Information and Registration](#)