

Heterogeneity, Asymmetry and Extreme Risk Perception; Dynamic Evolution Detection From Implied Risk Neutral Density

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Abstract : The current paper displays a new method of extracting information content from options prices by eliminating biases caused by daily variation of contract maturity. Based on Kernel regression tool, this non-parametric technique serves to obtain a spectrum of interpolated options with constant maturity horizons from negotiated optional contracts on the S&P TSX 60 index. This method makes it plausible to compare daily risk neutral densities from which extracting time continuous indicators allows the detection traders attitudes' evolution, such as, belief homogeneity, asymmetry and extreme Risk Perception. Our findings indicate that the applied method contribute to develop effective trading strategies and to adjust monetary policies through controlling trader's reactions to economic and monetary news.

Keywords : risk neutral densities, kernel, constant maturity horizons, homogeneity, asymmetry and extreme risk perception

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