GLOBAL VOLATILITY SUMMIT 2012

February 2012 Newsletter

Event Details

Date. March 6, 2012

Details. A one day summit to educate investors on the universe of volatility funds and tail hedging managers and discuss the market environment.

Location. Skylight Studio in Soho in New York City.

Event Update

Keynote speakers. We are excited to report that General Stanley McChrystal and The Honorable Rahm Emanuel (Mayor of Chicago) will be speaking at the event.

Managers. The following managers will be speaking at the event.

36 South Capital Advisors
Acorn Derivatives Management Corp.
Alphabet Management
Amundi Asset Management
ArrowGrass Capital Partners
Blue Mountain Captial
Capstone Investment Advisors
Fortress Investment Group
III Associates
Ionic Capital Management
JD Capital Management
Man Group
Parallax Fund
Pine River Capital Management
Vulpes Investment Management

Registration. Space is limited, please visit the website to sign up as soon as possible.

Agenda and speakers. Please continue to check the website for event details and tentative agenda.

Questions? Please contact info@globalvolatilitysummit.com

The goal of the Global Volatility Summit ("GVS") is to educate investors about investing in volatility. With the approach of the third annual GVS, we felt it was appropriate to launch a newsletter continuing this mission. Leading up to GVS, we have asked industry experts to discuss their thoughts and opinions on the volatility universe. This past year we have seen an uptick in interest in various strategies available in the volatility space, namely in relative value and tail risk, and we are keen to ensure investors are kept abreast of the most recent developments in all relevant strategies. We believe there is a volatility strategy that can be a suitable component of every investor's portfolio. That said, a concerted effort from the volatility community is required to continue to educate investors so they are aware of the pitfalls and benefits of various strategies available to them.

We asked *Jerry Haworth* from 36 South Capital Advisors to share his outlook for volatility in 2012.

Cheers,
Global Volatility Summit

The Future of Volatility

If you think that the average investor's eyes glaze over when talking about macroeconomic issues, multiply it by ten when you talk about volatility and its impact on investments!

36 South's main driver of returns is from investment in volatility so it is worth restating what we think about the nature of volatility and its future prospects. Volatility in its most simple form is "how much something jiggles" over a period of time (normally annualised to help us compare volatilities of other assets). It is used as a proxy in investment management for risk (a highly debatable one but probably the best of a bad bunch) and in this role it develops its importance as we value an asset with regard to its perceived risk. Prediction of future volatility has therefore become extremely important.

Volatility or "how much something jiggles" invariably depends on how certain we are of its future value.

This in turn depends on two things: how irrational the "crowd" is being on its estimate of future value and how certain or uncertain an asset's future value is in reality even to the most rational and realistic investor.

The "crowd think" nature is simply one of counter-intuitive behaviour, being overly complacent when volatility is low and overly fearful when volatility is high. This is a rich vein of opportunity for volatility investors who train themselves to be at least more rational than the average professional or retail investor. For example in 2007, nearly all structured product investors demanded products which entailed them selling volatility at multi-decade low levels, just before the Global Financial Crisis!

The second variable relating to volatility is not related to behavioural biases, it is reality. How volatile or how uncertain is the asset's value? This can be broken down into three areas.

1. Jiggling because of factors we know and understand
   Imagine two hundred years ago investing in a venture involving a ship trading spices with the Far East. There was a 10-1 chance that the ship returned, if at all, and if it did, returned laden with spices. When it did, "your ship came in". The odds were calculable because so many ships set off that their odds of returning laden with goods could be calculated as well as the probable returns, hence this was a "calculated risk".

2. Jiggling because of factors we are not aware of or are fundamentally unknowable in advance
   Tsunamis, earthquakes, asteroids, government intervention, law suits etc all fall into this category. Impossible to know or calculate but should be "baked in" to any potential risk of investment loss because "fat tails" happen more frequently than we give them credit for.

3. Jiggling because of factors affecting the base currency of the asset
   This is one area which is totally ignored by most market participants but will be, in our immediate future, one of predominant drivers of future volatility. If an asset is perfectly stable, but is denominated in a volatile currency, the asset will "inherit" the volatility of currency irrespective of whether you account for this asset in the said currency or not.

   Simply stated, the more inherently unstable the currency is, the more volatile the asset denominated in that currency. This is because every asset is a combination of two volatilities, volatility due to the asset itself and volatility due to the base currency. The Walmart share price is actually a shortened asset description for Walmart denominated in US Dollars. If the USD gets volatile, so will Walmart, irrespective of whether Walmart's specific volatility is stable.

   Increasing sovereign debt and leverage combined with money printing is making the world currencies more unstable. We simply are getting more uncertain about their future value. This in turn will make the assets denominated in these currencies more uncertain which will result in higher and higher levels of UNPREDICTABLE volatility going forward.

   Thus we are of the view that asset volatility in general and currency volatility in particular, is going to get more volatile regardless of their historical ranges around which they used to fluctuate. This is bad news for most traditional asset managers but good news for long volatility managers.

Jerry Haworth, Principal & CIO, 36 South Capital Advisors