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The Forecast Quality of Cboe Implied Volatility Indexes

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Abstract


We examine the forecast quality of Chicago Board Options Exchange (CBOE) implied volatility indexes based on the Standard and Poor's 100 and Nasdaq 100 stock indexes. We find that the forecast quality of CBOE implied volatilities for the S&P 100 (VIX) has significantly improved in recent years, and implied volatilities for the Nasdaq 100 (VXN) provide even higher quality forecasts of future realized volatility. CBOE implied volatilities appear to contain significant forecast errors in the period 1988-94, but we find no indication of significant forecast errors in the period 1995-2002.

Keywords: options, implied volatility, volatility forecasting

JEL Classification: C13, C22, C54, G13, G14

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