Applied Financial Economics ›
Volume 17, 2007 - Issue 15

Original Articles

Returns to trading portfolios of FTSE 100 index options

Xiaoquan Liu

Pages 1211-1225 | Published online: 24 Sep 2007
Cite this article https://doi.org/10.1080/09603100600905079

Abstract

It has been argued that the persistent mispricing of options, especially the overpricing of out-of-money put options, is a major reason for the often observed negative skewness in the risk-neutral price distributions of equity indices. This article investigates whether the Financial Times Stock Exchange 100 Shares index put options are overpriced compared with call options of the same moneyness and, if they are, whether this gives rise to profit opportunities in the market. By testing the weekly returns t... s and short position... However, short se... -ask sprea...

Notes

[1] The BS generates two types of error, firstly the implieds may not be accurate, and secondly the vega at those implieds may not be exact.

[2] The volatilities are mean-adjusted to control for the smile effect of the option-implied volatilities against moneyness. We use the mean across all the implieds of the day.