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# Returns to trading portfolios of FTSE 100 index options

Xiaoquan Liu

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## Abstract

It has been argued that the persistent mispricing of options, especially the overpricing of out-of-the-money put options, is a major reason for the often observed negative skewness in the returns to trading portfolios of FTSE 100 index options. This paper investigates whether the overpricing of out-of-the-money put options is a major reason for the often observed negative skewness in the returns to trading portfolios of FTSE 100 index options. We use weekly returns to trading portfolios of FTSE 100 index options and short call options to investigate the spread.

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## Notes

<sup>1</sup> 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.

<sup>2</sup> 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.

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