

IBEX 35 Short Strangle (IVS) Index

The strategy consists of systematic sale of a one-month put at 98% (2% below the price of the underlying asset) and a one-month call at 102% (2% above the price of the underlying asset). The premium proceeds and the nominal amount are invested at the daily EONIA rate, so the strategy is fully collateralised and not leveraged in any way.

When the options are rolled over (repurchase of the earlier puts and calls and sale of new puts and calls) the strike prices and amounts of the new sold options are modified. The index is perfectly replicable, because it applies a slippage cost of 3% to both buying and selling options, bounded by a minimum of 3 points and a maximum of 12.

Characteristics:

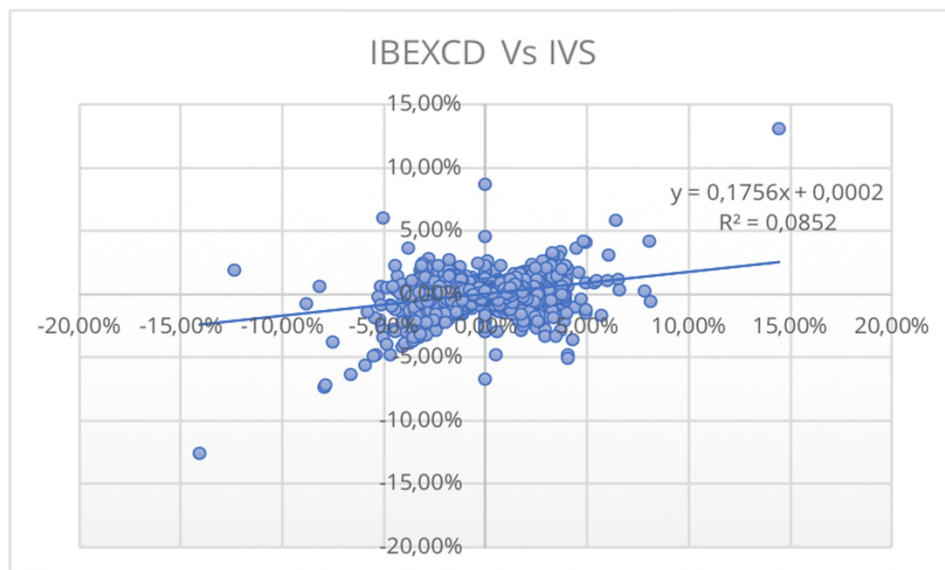
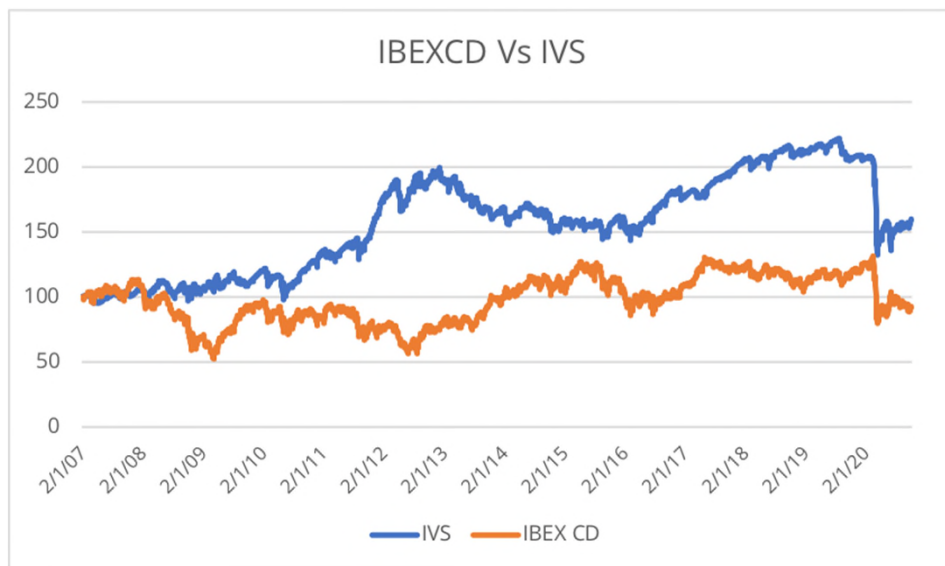
The index replicates an ongoing sale of puts and calls. It is a neutral strategy (not bullish, not bearish) that expects low volatility; profit is limited to the proceeds of option premiums. On the other hand, losses are theoretically unlimited if the market rises or declines sharply. The strategy is profitable as long as the market remains within a reasonably stable range. The strength of the strategy is that it is limited in time to 1 month. This means that profit and loss are in fact both capped at whatever the IBEX 35® index rises or falls within the space of one month.

The index has shifted sharply in some months, but it usually fluctuates within a range of +/-4%. It is important to bear in mind that the Short Strangle index and options-based strategic indices in general are closely related to the VIBEX and SKEW indices. The higher the volatility, the higher the monthly proceeds of selling options. The steeper the skew, again, the higher the premium proceeds. This index is attractive for its low correlation with the vanilla IBEX 35® and the positive alpha it provides.

Behaviour:

- **Moderate uptrend/downtrend.**- The strategy performs exceptionally well. The boundaries beyond which the strategy goes into the red are shifts of more than 2% plus the percentage represented by premium proceeds, which vary as a function of volatility. The higher VIBEX goes, the more attractive this index becomes. This is the most usual scenario.
- **Strong uptrend.**- The Short Strangle index sustains a loss. This is compounded by the fact that when the IBEX 35® rises VIBEX usually falls, which means that upon option roll-over the strategy earns less from premiums. This is the worst-case scenario.
- **Strong downtrend.**- The Short Strangle index also sustains losses, but less than the vanilla IBEX 35®, because it is cushioned by premium proceeds. This scenario is also unusual. When it does come about, it tends to be swift and sharp, driving up volatility, which in turn means higher premium proceeds when the options are rolled over to the next maturity. High premium proceeds means that the strategy recovers quickly. So this is not an especially negative scenario. The ideal scenario is a sideways market within a narrow channel in the IBEX 35® after a bear market that has powerfully pushed up VIBEX.

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Performance	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 (Oct)
IBEX CD	8,80%	-36,50%	38,27%	-14,44%	-8,06%	0,90%	23,48%	10,33%	-4,27%	5,08%	10,46%	-11,82%	16,43%	-26,55%
IVS	6,15%	-0,04%	13,21%	13,26%	28,04%	10,32%	-11,58%	-5,33%	0,43%	11,56%	16,25%	2,65%	-2,57%	-22,40%

Volatility	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 (Oct)
IBEX CD	16,46%	34,17%	25,23%	30,06%	27,93%	27,98%	18,81%	18,42%	21,67%	25,39%	12,85%	13,70%	12,39%	35,29%
IVS	9,08%	21,24%	13,37%	21,29%	14,53%	13,68%	10,89%	11,71%	13,25%	12,67%	5,87%	7,51%	5,66%	26,56%