

Shorting Leveraged ETF Pairs

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Abstract: We study the strategy of shorting a pair of leveraged ETF and inverse leveraged ETF of the same index. We show this strategy is really a bet on the mean reversion of the underlying benchmark. The profitability of this strategy does not depend on the direction of the underlying benchmark. It profits when the underlying benchmark moves in a mean-reverting fashion, and it loses when the benchmark moves in a trending fashion. We then discuss dynamic trading strategies to replicate the shorting pair strategy. Our example of trading the FAS/FAZ pair shows Sharpe ratios similar to the market portfolio but super low correlation with the market.

Speaker Bio: Dr. Ge Zhang is a Professor of Finance at William Paterson University in Wayne, NJ. She graduated from Duke Univ. and her research interests are in the areas of empirical corporate finance, financial markets and risk management. Her teaching interests cover MBA case studies/risk management/investment and undergraduate financial information analysis/ investment etc.

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