Title: **UNDERSTANDING VOLATILITY RISK**

Speaker: **JOHN CAMPBELL**
Harvard University

Importance: Why this matters:

Campbell views volatility risk from the perspective of the long term investor, one who values adequate consumption over final wealth. This is particularly pertinent in today's world of near-zero yields and high, unstable volatility. Long term investors must plan for the inevitable fluctuation of investment opportunities.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

Author uses CRISP data from 1931 to 2011, and estimates his three betas (long term sensitivities) using Expected Market Return Variance, Normalized Earnings Data, Treasury Term Yield Spreads, Small Stock Value Spreads and Bond Default Spreads

Innovation: Are there new techniques of interest in the data or approach to the problem?

Campbell determines long-term sensitivity risks to three betas:

1. Beta with respect to discount-rate shocks
2. Beta with respect to cash-flow shocks
3. Beta with respect to variance shocks

Insights: 1-2-3, what are the three most important things the speaker offered?

- Many anomalies in the equity market look smaller from the point of view of a conservative long-term investor who wants to hedge volatility.
- Volatility hedging also helps explain the high returns to the carry trade. Not very helpful in explaining high returns of short term option writing.

Audience rating: 4.13