



**THE Nigerian  
STOCK EXCHANGE**

RC: 2321

# MANAGING VOLATILITIES IN THE CAPITAL MARKET

Presented by

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for

Risk Management Association of Nigeria (RIMAN)

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# Outline

- Capital Market Performance
- Volatility and Market Performance
- Positives and Negatives of Volatility
- Managing Volatility
- Bright Outlook



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# Volatility

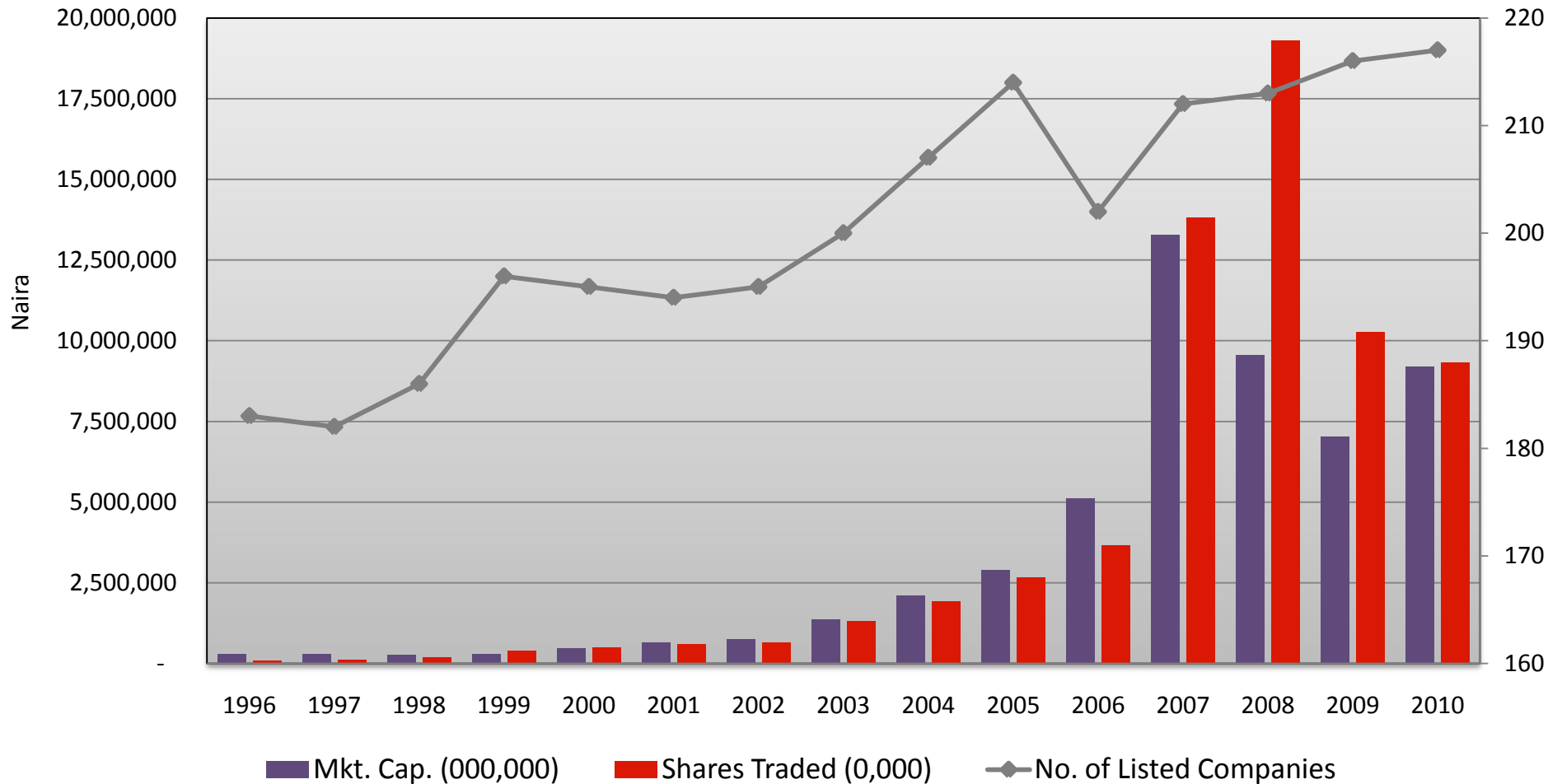
The measure for variation of price of a financial instrument over time.

It is used to quantify the risk of the financial instrument over the specified time period.

It is usually expressed in annualized terms, and may be either an absolute number (N5) or a fraction of the mean (5%).

***Actual current volatility is based on historical prices over the specified period with the last observation being the most recent price.***

# Capital Market Performance (Equities, 1996-2010)



# Return on Investment (Equities, 1996-2007)

**Investors with a long-term investment strategy  
would have maximized on their investments in  
this time period.**

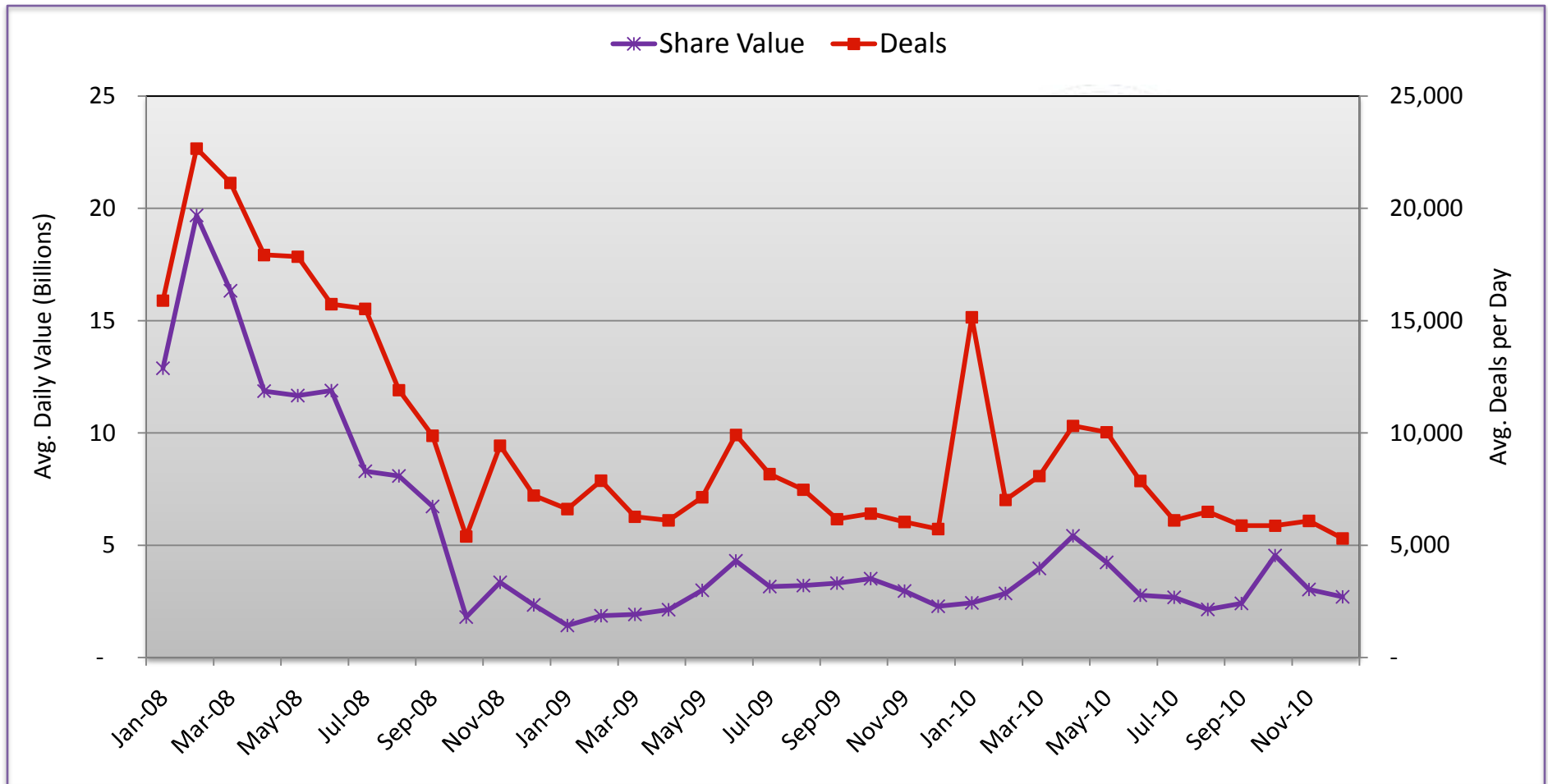


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# Capital Market Activity (Equities, 2008-2010)



# 2008/2009 Financial Crisis

- High rates of margin lending
- Bank over-exposure
- Market downturn
- Failed risk management processes
- Unseen rate of default
- Excess distressed debts
- Illiquid financial and capital system



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**Result:**  
**Financial market crash**

# Volatility and Market Performance

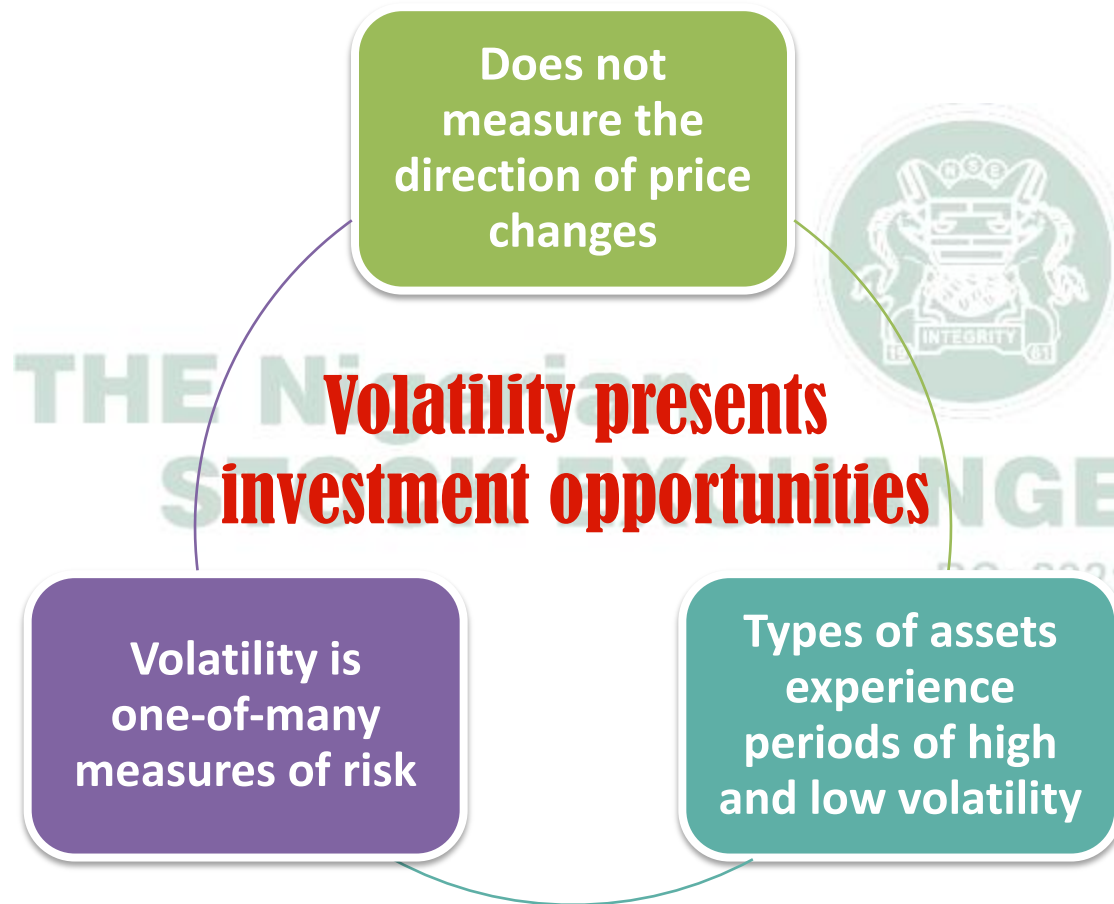
- Volatility
  - eg., CBOE Volatility Index (VIX): An up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500® Index (SPX) option bid/ask quotes. VIX uses “nearby” and “second nearby” options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index.
  - **No market volatility index currently available for the Nigerian market**
- Market Performance
  - Strong relationship between volatility and market performance
  - Volatility tends to decline as the stock market rises and increase as the stock market falls
  - When volatility increases, risk increases and returns decrease
  - Risk is represented by the dispersion of returns around mean
  - Greater dispersion of returns around the mean, triggers larger drops in the compound return

# Using the Volatility and Market Performance Argument

- Using the volatility and market performance argument, recent stock market activity has resulted in:

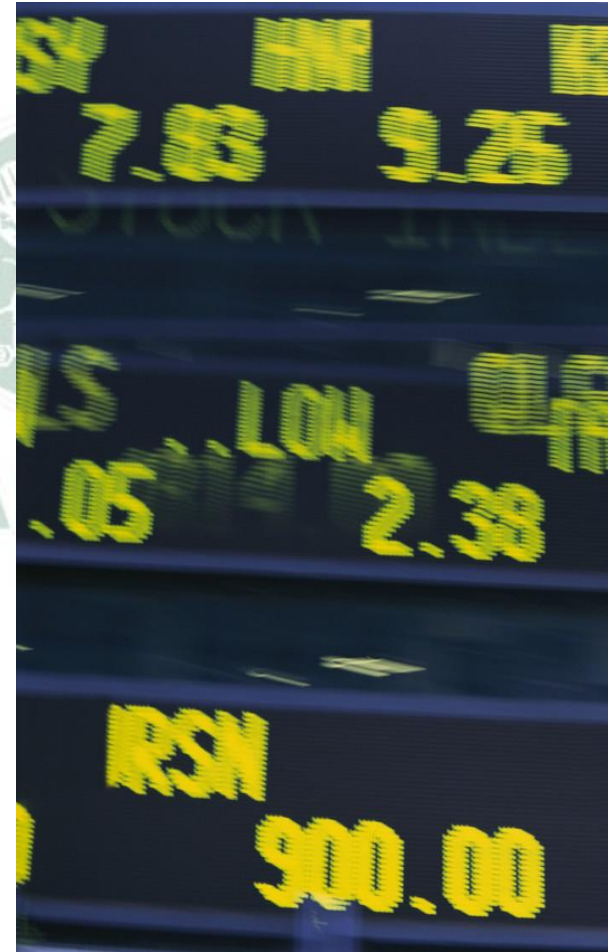


# The Truth About Volatility



# Positives & Negatives of Volatility

- Investors
  - Wider swings in investment prices trigger uncertainty/panic
  - Higher volatility means a greater chance of a shortfall of a near-future security sale
  - Higher volatility of returns results in a wider distribution of final portfolio values when saving for the long-term (retirement)
  - Higher volatility of return gives withdrawals a larger permanent impact on the portfolios



# Positives & Negatives of Volatility contd.

- Traders
  - Is the basis for all options pricing models, and forms the core of several options trading strategies
  - Drives speculative trading which enhances liquidity
  - Provides an opportunity to acquire previously illiquid assets
  - Speculation-driven liquidity may trigger higher international participation
  - Negatively affects investment strategy due to binary market trends (ie., extreme movements in either direction) caused by “herd” mentality market uncertainty



# Managing Volatility

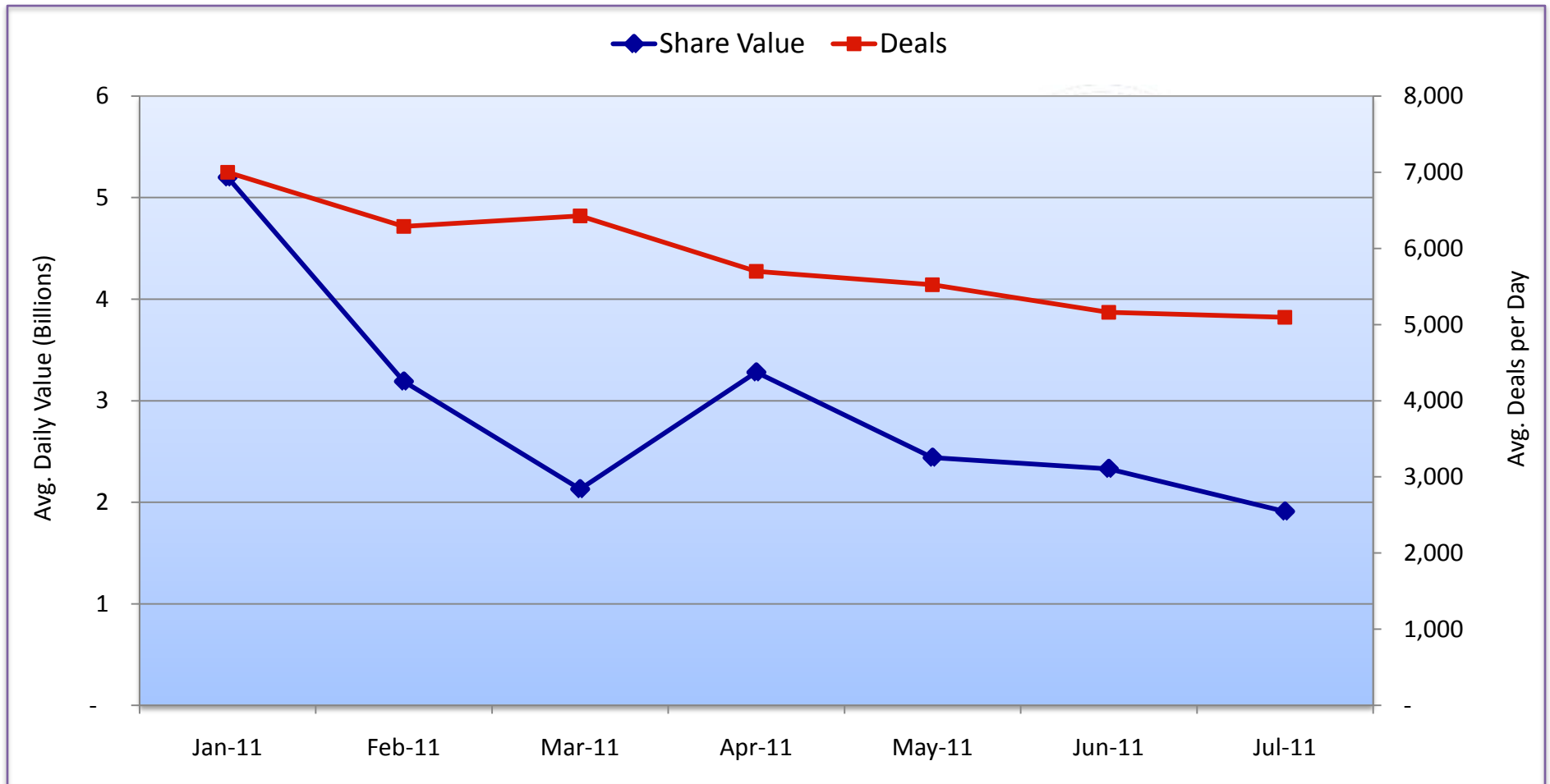
- Portfolio Analysis/Rebalancing and Asset Allocation
- Statistical Tools and Models
  - Standard Deviation
  - Moving Average of Share Price
- Liquidity
  - New Programs
    - Market Making
    - Short Selling
    - Securities Lending
    - Open/Close and Intraday Auctions
- Risk Management
  - Existing smoothing factors
    - 50k-unit min. to move price (Originally implemented for curbing market manipulation)



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# Capital Market Activity in 2011 (Equities, Jan-Jul)



# Volatility vs. Uncertainty vs. Risk

**Market volatility sparked widespread uncertainty,  
which spooked the market and  
drove perceived risk to the highest levels  
ever seen in our marketplace.**

# Outlook: The Future is Bright

- Markets are cyclical
- Periods of volatility are natural
- Opportunities exist in the current marketplace
- NSE is focused on shifting the tide
- The market is committed to turning the corner





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# MANAGING VOLATILITIES IN THE CAPITAL MARKET

## Q&A

# Thank You

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