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Malkiel's AlphaShares Creates China Volatility Index
By Jeff Kearns

July 7 (Bloomberg) -- AlphaShares LLC, the fund manager co- founded by Princeton University economist Burton Malkiel, has introduced an index similar to the VIX that uses options prices to track stock market volatility in China and Hong Kong.

The AlphaShares Chinese Volatility Index, or CHIX, tracks the implied volatility of options on the Hang Seng Index, the benchmark for Hong Kong stocks, and the FTSE/Xinhua China 25 Index, which tracks China's 25 largest companies by market value, AlphaShares said in a statement.

"Investors turn to the VIX to see how fear and uncertainty are driving markets here in the United States," Jonathan Masse, who helps oversee about $150 million as senior portfolio manager at AlphaShares in Walnut Creek, California, said in an interview. "This is a new tool that international investors can use for China."

The index is based on a methodology similar to the VIX, or Chicago Board Options Exchange Volatility Index, AlphaShares said. CBOE's VIX measures the cost of using options as insurance against declines in the Standard & Poor's 500 Index.

The CBOE created the VIX in 1993, based on prices for options on the S&P 100 index, then modified it in 2003 to track S&P 500 options. The index gauges expectations for stock-market swings in the next 30 days and is calculated from options that are one or two months from expiration. CBOE has licensed the VIX methodology for use in Canada, India and other countries.

Historic Performance

The CHIX has averaged 55.75 over the last year and closed at a record 122.25 on Oct. 27. The VIX has averaged 40.39 over the last year after reaching an intraday record of 89.53 on Oct. 24 and a record close at 80.86 on Nov. 20.

Malkiel forecast the tumble in Chinese equities last year, saying in a January interview that the "bubble" would burst once the government allowed funds to flow more freely. The Shanghai Composite Index, which tracks the bigger of China's bourses, tumbled 65 percent in 2008.

Implied volatility is a measure of expected price swings and the key gauge of options prices. Options are derivatives that give the right though not the obligation to buy or sell a security at a set price and date. Investors use options to guard against fluctuations in the price of securities they own, speculate on share-price moves or bet that volatility, or stock swings, will increase or decrease.

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