State Street Launches Turbulence Indices to Assist Institutional Investors with Active Portfolio Management and Diversification

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Indices Help Investors Identify Investment Risk for Equities, Currency, Fixed Income and Global Asset Classes

BOSTON--(BUSINESS WIRE)--State Street Global Markets, the investment research and trading arm of State Street Corporation (NYSE:STT), today announced the launch of its Turbulence Indices, a suite of indices that measure the unusualness, or turbulence, of market behavior on a daily basis, which can help investors stress test their investment strategies, build more versatile portfolios and dynamically scale risk exposure. State Street’s Turbulence Indices cover US and European equities, currency, US fixed income and global asset classes. Each index provides a single, daily measure of turbulence based on the abnormality of its constituents’ returns on that day.

Unusualness and abnormality can result from extreme events that move volatility up or down or from a sudden change in correlation between assets. This can be particularly effective in managing portfolio risk, because the relative turbulence of a given day can result from the unusual performance of a single asset or from the extraordinary interaction between a combination of assets, which would not appear unusual in isolation.

“One of the most valuable lessons learned over the last few years of market turbulence is that traditional portfolio construction techniques cannot comprehensively assess the full amount of risk inherent in a portfolio,” said Will Kinlaw, managing director and head of Portfolio and Risk Management Research at State Street Global Markets. “State Street’s Turbulence Indices go a step further from traditional volatility measures by identifying periods in which assumptions about correlations between investments – as well as their volatilities – should be revisited. The Turbulence Indices can be used alongside other measures of volatility to better manage current portfolios and prepare for additional instability in the market.”

Institutional investors can use the indices to stress test their current financial models by assessing the performance of the model under extreme conditions. The indices can also help portfolio managers to build resilient portfolios that can better withstand extreme market conditions. Since changing strategies requires a significant amount of time, using tools like the Turbulence Indices can help create a more resilient portfolio that can perform well in stable times and remain solid in volatile times. In addition, asset managers can use the index to dynamically scale risk exposure. Standard models do not typically take extended periods of market turbulence into account and since turbulence has historically proven to be persistent once it strikes, it is possible to predict patterns of turbulence and design a strategy to better manage returns by scaling risk exposure to the affected assets.

“Clients are also able to download our index values and apply them to their own portfolios to more effectively manage risk,” continued Kinlaw.

State Street Global Markets’ research team of leading academic and industry experts is committed to continually advancing the science, including theory and application of its proprietary investor behavior research and innovative portfolio and risk management technologies, to help its customers challenge conventional thinking, shape ideas, make more informed investment decisions and deliver measurable results.

About State Street

State Street Corporation (NYSE: STT) is one of the world’s leading providers of financial services to institutional investors including investment servicing, investment management and investment research and trading. With $19 trillion in assets under custody and administration and $1.8 trillion in assets under management at June 30, 2010, State Street operates in 25 countries and more than 100 geographic markets worldwide. For more information, visit State Street’s web site at www.statestreet.com [3].

About State Street Global Markets

State Street Global Markets provides specialized research, trading, securities lending and innovative portfolio strategies to owners and managers of institutional assets. Its goal is to enhance and preserve portfolio values through original flow-based research, proprietary portfolio and risk management technologies, trading optimization and global connectivity. Its unique position at the crossroads of the global markets enables its sales and trading professionals to tap diverse sources of
liquidity and provide cost-effective solutions.

1 “Unusualness” is defined as the covariance-adjusted distance between that day’s observation, which is comprised of a set of contemporaneous returns, and the multivariate mean in multi-dimensional space. Turbulence is defined using this multivariate distance to quantify unusual patterns of investment returns.

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