April 17th, 10:30 AM - 12:00 PM

How Acute are Today's Stock Market Investors? Tracking Conventional Wisdom through Implied Volatility

Evan T. Djikas
Illinois Wesleyan University

Narendra K. Jaggi, Faculty Advisor
Illinois Wesleyan University

Follow this and additional works at: https://digitalcommons.iwu.edu/jwprc

https://digitalcommons.iwu.edu/jwprc/1999/oralpres/2

This is protected by copyright and/or related rights. It has been brought to you by Digital Commons @ IWU with permission from the rights-holder(s). You are free to use this material in any way that is permitted by the copyright and related rights legislation that applies to your use. For other uses you need to obtain permission from the rights-holder(s) directly, unless additional rights are indicated by a Creative Commons license in the record and/or on the work itself. This material has been accepted for inclusion by faculty at Illinois Wesleyan University. For more information, please contact digitalcommons@iwu.edu.
©Copyright is owned by the author of this document.
Oral Presentation 1.4

HOW ACUTE ARE TODAY’S STOCK MARKET INVESTORS? TRACKING CONVENTIONAL WISDOM THROUGH IMPLIED VOLATILITY.

Evan T. Djikas and Narendra K. Jaggi*
Department of Physics, Illinois Wesleyan University

In 1973, Fischer Black and Myron Scholes¹, and Robert Merton² developed a novel, deterministic algorithm, which could, given a realistic set of assumptions about the volatility of the market, compute the rational price of European call options. This pioneering work placed options-pricing on a rational footing, and was recently (1997) honored by awarding the Nobel prize in Economics. We have inverted this algorithm to impute, by iteration, the implied volatility of the underlying stock³ and infer market opinion of future price movements.

We have tracked options on stocks under heavy speculation to discern the investor sentiment surrounding these stocks, by extracting the implied volatility of the stock price. Issues surrounding the accuracy of investor sentiment on these stocks will be addressed.