Moray Capital Management, LLC

Introduction

MORAY
CAPITAL MANAGEMENT, LLC

History of MCM

- Founded in March of 2007 by James Relihan

- B.S. degree in Mechanical Engineering from Cornell University
- M.B.A. (High Honors) with concentrations in Analytic Finance and Statistics from the University of Chicago's Graduate School of Business
- Series 7 and 24 licenses

- Spent 10 years trading Equity Options markets in a variety of roles previously for Susquehanna Investment Group and Spot Trading
  - Options Market Maker on floor of Chicago Board Options Exchange (CBOE)
  - Designated Primary Market Maker (DPM) on CBOE
  - Electronic DPM on CBOE (eDPM)
  - Liquidity/Flow trader for sell side options desk
  - Proprietary Trading for buy side options volatility book

- Established to trade volatility combining our background with the two different approaches to options trading
  - Volatility as an asset class
  - Statistical Arbitrage within the options market

Managing volatility as an asset class

- Volatility affects all assets, Equities, Fixed Income, Real Estate, Commodities, etc.
- Managing volatility is especially important not only because it will affect all other portfolios, but also because of the way it will affect the correlation among those portfolios
- Without taking volatility into account what may appear to be a balanced portfolio may not perform as such, especially in extreme circumstances
- Our fund allows us to leverage our expertise in the equity volatility market to generate superior returns taking advantage of volatility opportunities on both the micro and macro levels

Our Model and Approach

- We believe that volatility is an asset that should be part of your portfolio, and in this environment it is especially crucial to manage your exposure
- Our proprietary models are built to identify opportunities in equity options where we believe volatility is trading significantly above or below its expected value for the future
- The model is long/short neutral, we have no preference in being either long or short volatility and believe that to be consistently successful you must do both
- Models for expected volatility are not perfect (we do not expect them to be), which is why you cannot rely on them completely, and will limit your profitability if you do
- We overlay the belief in volatility as an asset with the statistical arbitrage skills most commonly used in market making
- This is why our traders have strong background and knowledge of both quantitative option pricing and the arbitrage relationships in the options market
- This combination allows alpha and omega to be generated no matter what the level of volatility or market environment

What makes a great trade?

- We believe there are opportunities to make both Alpha and Omega in the equity volatility market
- Alpha
  - Derived when there is a mispricing in the volatility market due to an over or under pricing of the expectation of future volatility
- Omega
  - Myron Scholes defines Omega as the returns achieved by providing risk transfer services
  - Derived when we provide liquidity in the market to other participants so they may hedge risks that they perceive in their portfolios

How do we achieve Alpha?

- We will purchase or sell options when they are failing to price future volatility correctly
  - An upcoming event may not be accounted for
  - Overconfidence in knowledge about the general market conditions lead to option prices that are too low (and vice versa)
  - Our modeling leads us to believe that an upcoming event is going to be more/less impacting than the market is currently pricing

- We will also spread options against one another
  - This can take advantage of mispricing in the distribution for a security’s return within a given period
  - This can be done across time periods to arbitrage the relationship that must hold between terms or to take advantage of the mispricing in the period between the expirations

How do we achieve Omega?

- We provide liquidity to other market participants allowing them to remove risk from their portfolios
  - We may sell options to another participant that allows them to hedge a risk, yet is at a price that provides return over the expected volatility of the security
  - We may buy options so another participant can augment their portfolio return, but we will buy the options at a level that under prices the future volatility of the security

- We anticipate that this aspect of our returns will continue to grow do to the constraints that other larger firms will face in the future do to increased regulation (i.e. Dodd-Frank)

Contact Info

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