

On Volatility: Oh, oh....Here We Go Again!

On Thursday, September 15, an article on IPO's in The Wall Street Journal said, "But with the VIX, or "fear index," hitting extremely high levels of late....it is clear investors can't decide what companies are really worth...."¹

So how is the poor valuation practitioner supposed to determine the "right" DLDM for a company she is valuing? With VIX levels going from the teens to the 40's and back within weeks, what volatility number should I use? Since higher volatility numbers will produce bigger discounts, can I justify the number I choose? Does the volatility number I choose really apply to the company I am valuing or just to the total market?

One of the advantages of using LEAPS to determine an appropriate DLDM is that you avoid the volatility dilemma completely. LEAPS put options for the companies or ETFs you choose already contain the market's volatility estimates for those specific companies, not just for the market as a whole.

¹ "No Quick VIX for IPOs," The Wall Street Journal, Thursday, September 15, 2011, pg. C12.