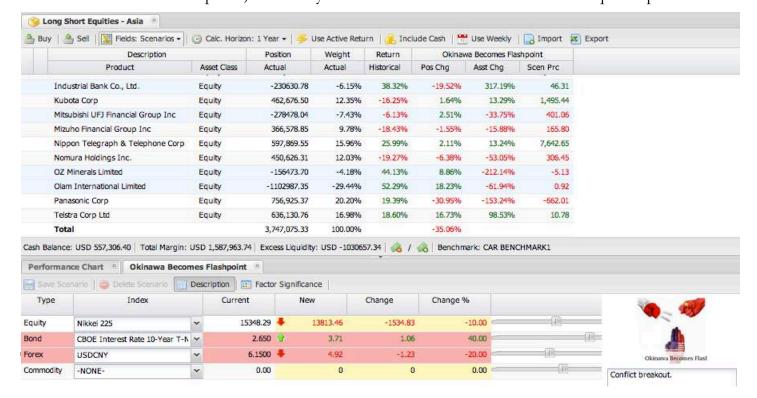# Case Study: Long Short Equities – Asia

A HedgeSPA user has a long-short portfolio in Asian equities, as follows:

	Description			Position	Weight	P&L	Market	Risk	Return	
	Product	Asset Class	Currency	Actual	Actual	Actual	Last Price	Volatility	Historical	6m Beta
	Aozora Bank Ltd	Equity	JPY	-309776.05	-8.26%	-76101.05	346.00	12.52%	12.73%	-0.17
	CLP Holdings Ltd.	Equity	HKD	-242925.58	-6.48%	7,161.50	64.45	11.84%	4.66%	0.24
	Capitalcommercial Trust	Equity	SGD	368,424.22	9.83%	-2260.27	1.63	16.58%	19.97%	0.41
	Cash in USD	Cash	USD	-193.60	-0.01%	0	1.00	0.00%	0.00%	0
	Cheung Kong (Holdings) Limited	Equity	HKD	432,443.09	11.54%	57,312.46	143.06	22.41%	29.32%	0.08
	China Coal Energy Company Ltd.	Equity	HKD	-151586.53	-4.04%	98,500.56	4.94	30.25%	14.29%	-0.09
	China Minsheng Banking Corp Ltd.	Equity	CNY	376,919.10	10.05%	-234992.77	6.48	31.22%	-21.49%	0.03
	China Mobile Limited	Equity	HKD	374,693.15	10.00%	-437.47	85.65	20.80%	11.48%	0.20
	China Unicom (Hong Kong) Limited	Equity	HKD	-276526.31	-7.38%	-26439.04	12.76	31.39%	27.00%	0.21

As we know, major global events unfolding now could shake up markets in the future. In this example, potential conflicts in Okinawa could have a drastic effect on these Asian equities. HedgeSPA's research team has outlined a few plausible scenarios that may arise in Okinawa, given our research on Okinawa's history and its current political tensions. We built these scenarios into our platform as templates for users to create their own. For example, if the future scenario is that Okinawa becomes a flashpoint, there may be a massive 35% loss in this Asian equities portfolio:

	Description		Position	Weight	Return	Okinawa Becomes Flashpoint		
	Product	Asset Class	Actual	Actual	Historical	Pos Chg	Asst Chg	Scen Prc
	Industrial Bank Co., Ltd.	Equity	-230630.78	-6.15%	38.32%	-19.52%	317.19%	46.31
	Kubota Corp	Equity	462,676.50	12.35%	-16.25%	1.64%	13.29%	1,495.44
	Mitsubishi UFJ Financial Group Inc	Equity	-278478.04	-7.43%	-6.13%	2.51%	-33.75%	401.06
	Mizuho Financial Group Inc	Equity	366,578.85	9.78%	-18.43%	-1.55%	-15.88%	165.80
	Nippon Telegraph & Telephone Corp	Equity	597,869.55	15.96%	25.99%	2.11%	13.24%	7,642.65
	Nomura Holdings Inc.	Equity	450,626.31	12.03%	-19.27%	-6.38%	-53.05%	306.45
	OZ Minerals Limited	Equity	-156473.70	-4.18%	44.13%	8.86%	-212.14%	-5.13
	Olam International Limited	Equity	-1102987.35	-29.44%	52.29%	18.23%	-61.94%	0.92
	Panasonic Corp	Equity	756,925.37	20.20%	19.39%	-30.95%	-153.24%	-662.01
	Telstra Corp Ltd	Equity	636,130.76	16.98%	18.60%	16.73%	98.53%	10.78
	Total		3,747,075.33	100.00%		-35.06%		

Cash Balance: USD 557,306.40 | Total Margin: USD 1,587,963.74 | Excess Liquidity: USD -1030657.34 | Benchmark: CAR BENCHMARK1

Performance Chart | **Okinawa Becomes Flashpoint**

Save Scenario | Delete Scenario | Description | Factor Significance

Type	Index		Current	New	Change	Change %		
Equity	Nikkei 225		15348.29	13813.46	-1534.83	-10.00		
Bond	CBOE Interest Rate 10-Year T-N		2.650	3.71	1.06	40.00		
Forex	USDCNY		6.1500	4.92	-1.23	-20.00		
Commodity	-NONE-		0.00	0	0	0.00		

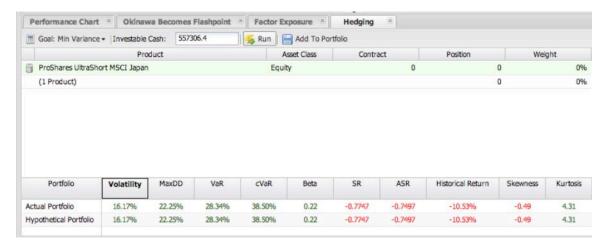Okinawa Becomes Flash

Conflict breakout.

Our user wants to implement this investment thesis, but he is also concerned about the remote possibility of a shock event, since it is generally costly to short in Asia. Using HedgeSPA's state-of-the-art analytic tools, he wants to check first that the key factor shocks driving this scenario are all equity-related:

Product Name	System Factor Universe	Scenario Position Return	HSI	SPY	CSI	EUE	EEM
Mizuho Financial Group Inc	Equity (Global)	1.29	0.16	-13.05	-8.33	3.30	-0.54
Nippon Telegraph & Telephone Corp	Equity (Global)	6.30	1.28	1.94	2.12	0.34	-3.03
Nomura Holdings Inc.	Equity (Global)	-0.30	3.88	-16.04	-14.10	5.76	-2.26
Olam International Limited	Equity (Global)	32.41	-0.67	-19.43	-3.35	7.85	-1.01
OZ Minerals Limited	Equity (Global)	15.89	-1.14	-5.57	-0.35	-1.56	0.02
Panasonic Corp	Equity (Global)	-46.03	-2.04	11.71	-23.69	8.46	-3.80
Telstra Corp Ltd	Equity (Global)	30.63	3.28	-3.27	6.23	-4.34	-0.22
User		0.00	0.00	0.00	0.00	0.00	0.00
System		-22.71	27.85	-58.29	-52.81	21.58	-12.36
Portfolio		-22.71	27.85	-58.29	-52.81	21.58	-12.36

If he uses a naïve measure to hedge out the net long exposure, such as by minimizing variance, as it is done on most commercial software and data terminals, surprisingly he ends up with a no action recommendation even when the portfolio:

Goal: Min Variance ▾ | Investable Cash: 557306.4 | Run | Add To Portfolio

Product	Asset Class	Contract	Position	Weight
ProShares UltraShort MSCI Japan	Equity	0	0	0%
(1 Product)			0	0%

Portfolio	Volatility	MaxDD	VaR	cVaR	Beta	SR	ASR	Historical Return	Skewness	Kurtosis
Actual Portfolio	16.17%	22.25%	28.34%	38.50%	0.22	-0.7747	-0.7497	-10.53%	-0.49	4.31
Hypothetical Portfolio	16.17%	22.25%	28.34%	38.50%	0.22	-0.7747	-0.7497	-10.53%	-0.49	4.31

However, if he uses one of HedgeSPA's more sophisticated measures to hedge out the exposure, *by balancing upside profit potential against downside risk*, he will end up with a far more interesting, actionable recommendation, that effectively neutralizes the beta of such a portfolio by using a Japanese equity market index as the hedging vehicle:

Performance Chart	Okinawa Becomes Flashpoint	Factor Exposure	**Hedging**	

Product	Asset Class	Contract	Position	Weight
ProShares UltraShort MSCI Japan	Equity	9202.71	557,500	12.84%
(1 Product)			557,500	12.84%

Portfolio	Volatility	MaxDD	VaR	cVaR	Beta	SR	ASR	Historical Return	Skewness	Kurtosis
Actual Portfolio	16.17%	22.25%	28.34%	38.50%	0.22	-0.7747	-0.7497	-10.53%	-0.49	4.31
Hypothetical Portfolio	40.53%	19.05%	0.00%	0.00%	-0.04	0.6080	0	26.65%	5.87	40.89

Conclusion: *Our user used HedgeSPA's analytics to derive quantitatively rigorous recommendations that he otherwise might have missed. More importantly, this computation was done in a few minutes, without the pains of downloading and scrubbing data from multiple sources. While the user may ultimately decide to put on a different hedge, or he may come up with an alternative macroeconomic scenario, he can quickly redo these highly complex, actionable calculations in a matter of minutes, instead of waiting hours if not overnight for traditional solutions to complete similar calculations while markets move. That is how HedgeSPA's solid investment analytics solution can save our users from common pitfalls that ruin countless other portfolios.*

HedgeSPA offers a variety of services for buy-side professionals on our analytics platform, including scenario analysis, risk and return attribution, automated report generation, and more.
Sign up now for a free platform trial.
For current news and information about platform scenarios, subscribe to our newsletter.

Contact Us

Address	440 N. Wolfe Road, Sunnyvale, CA 94085 USA
Phone	+1 (415) 465 2503 (California) or +65 9183 1492 (Singapore)
Skype	hedgespa.support
Email	salesnsupport@hedgespa.com
Website	www.hedgespa.com