BofA SECURITIES

Trader Insights

Actionable Ideas for the Power to Trade Smarter

Can High Frequency Data Help You Navigate Volatility

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Mr. Lettieri: Market volatility, like seismic activity, tends to cluster. Large market moves have also typically corresponded to market downturns. That's why more timely identification of volatility through the use of intraday data may help investment performance by reducing the tax or drag that volatility can exert on portfolios. The use of candlestick charts tracking the open, high, low and closing prices for a given period, is one example of intraday data used today.

While sharp market moves of 5% generally don't happen instantaneously it may appear that way when looking at closing prices alone. Intraday data is a window into a security's true behavior. The additional data adds texture and potentially faster pattern recognition, allowing market participants to quickly respond to shifting market conditions, mitigate risk and capture returns.

This approach is supported by academic research and real-world application. Bank of America's patent-pending Fast Convergence technology, which monitors and responds to market volatility throughout the trading day, is currently used in our investable indices business. Since January 2020, back-testing and live performance have shown that when comparing results to an unhedged equity exposure or more traditional volatility control techniques, Fast Convergence improved risk adjusted returns. Over the longer term, the impact of using high frequency data to assess volatility may be profound.
For more insights and ideas, check out the rest of our Trader Insights series.