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## **THE PORTFOLIO SELECTION FOR A HEDGING STRATEGY**

### **Abstract:**

Every trader or investor who holds financial instruments has different approach to a portfolio selection. In this paper we focus on a delta-gamma-hedging strategy using an alternative protective collar strategy for shares and warrants approach. We compose a portfolio consisting of shares and warrants. We choose them based on four criteria - liquidity, volatility, correlation and amount. We get nine shares which meet our criteria and warrants which have these shares as underlying assets, the tenth instrument is gold and warrant on gold, representing defensive asset. We make portfolios delta-gamma-neutral and follow their performance in one month period starting in October 2016. The hypothesis stated is that for decreasing shares our strategy will generate above-average profit. In the observed period our strategy resulted in 1.21% profit, while benchmark was -0.7% in loss. That makes approximately 14% profit per year, even though only seven shares were decreasing while the others were increasing in the observed period. We consider this strategy to be successful. However, it is suitable for bearish trend on capital markets and we omitted taxes and spreads.

### **Keywords:**

portfolio, warrant, strategy, bearish trend