

## **Volatility Timing Using ETF Options: Evidence from Hedge Funds**

**Abstract:** We find that hedge funds' ETF option positions predict cross-sectional differences in the future volatility of underlying ETFs. The predictive power is strongest for straddle positions and non-equity ETFs. A tracking portfolio of straddles based on funds' straddle positions earns quarterly abnormal returns of 7.35%. Net of fees, funds using ETF straddles deliver lower risk and higher benchmark-adjusted returns than nonusers. We also find that hedge funds' trading in ETF options has a positive impact on ETF option prices and improves price efficiency in individual equity options. We conclude that ETF options are an important venue for informed volatility trading.