CONVERTIBLE ARBITRAGE: AN OLD-SCHOOL ALL-WEATHER STRATEGY

Ask the PORTFOLIO MANAGER

What is convertible arbitrage?

Transcript of a video recorded on November 30, 2017.

ELI PARS

Co-CIO, Head of Alternative Strategies and Co-Head of Convertible Strategies, Senior Co-PM

Eli Pars, Co-CIO, Head of Alternative Strategies and Co-Head of Convertible Strategies, Senior Co-PM, says the goal is to buy low and sell high, generate coupon income and trade around the portfolio.

Convertible arbitrage is an old-school hedge fund strategy and it's done to try to earn a return no matter what the market environment is. It sounds, sometimes, like a black box to a lot of people, but really, at its core, it's relatively simple. You're buying a convertible bond and you're shorting the company stock against it to try to create an equal return whether the stock goes up or the stock goes down.

Then, one of the nice parts about it is, as the stock continues to climb, your sensitivity, or what's often called delta of the convertible, tends to rise with it. So, you sell more stock to get back in shape and get your hedge in line. As the stock goes back down, you buy the stock back. So, you mechanically are buying low and selling high which is an attractive proposition in and of itself. That alone with the coupon income and the ability to trade around the portfolio is how it's been kind of an all-weather strategy for investors for a long time.

WATCH VIDEO

Video recorded 11/30/2017.

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Calamos Financial Services LLC, Distributor
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com | caminfo@calamos.com

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