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VOLATILITY TRANSMISSION BETWEEN ENERGY-RELATED ASSET CLASSES

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Abstract

Energy companies, alternative or traditional, have been in the center of both financial and political debates during the last few years all around the world. Extensive crises related to fossil fuel resources have triggered the creation of brand new sources while the further development of already-in-use alternative sources is highly encouraged. Energy portfolios are important tools in most investor strategies and the way to incorporate new alternative energy companies in those portfolios has been a large part of the debate. Regardless of the strategy, be it in derivatives or traditional stock portfolios, risk anticipation and management are keys to a successful implementation. The purpose of this study, aside from filling a gap in literature, is to aid investors in risk anticipation and asset allocation through shedding some light on risk transmission effects between energy sub-sector company portfolios and energy commodities. Sub-sectors tested in this study include petroleum, coal, natural gas, solar, nuclear, wind, and biofuel companies. We find that risk spills over from energy companies to some commodities, and not vice versa. The most influential sub-sector is found to be petroleum companies.

Keywords: Stock Volatility, Oil Prices, Alternative Energy Companies

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