No News is News: Volatility Speculation and Multidimensional Heterogeneous Beliefs

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Abstract

We demonstrate the asset pricing implications of investors' belief heterogeneity in the frequency of news arrival and its joint impact with heterogeneous beliefs about news content. Investors trade volatility derivatives against each other to speculate on the rate of news arrival: greater disagreement of this kind gives rise to more extreme derivative positions. When disagreement about news arrival frequency is low, volatility exhibits mean reversion because extreme optimists and pessimists incur substantial wealth losses amid intense market swings. In contrast, high disagreement about the news arrival rate leads to volatility persistence. When news is absent in such environments, volatility sellers dominate, and extreme payoffs are underweighted in the formation of market expectations, resulting in lower implied volatility. In this context, "no news" effectively becomes good news for risky asset valuations.

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