The Collar Strategy as a Hedgıng Effort in the Jakarta Islamıc Index

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ABSTRACT

The revivals of the Islamic economy in Indonesia was marked by the establishment of the Jakarta Islamic Index (JII) on July 3, 2000. The crises in 2008 and 2020 caused JII to experience relatively high fluctuations. Hedging was necessary to protect assets from sharp declines. One of the hedging strategies was to use option contracts with a collar strategy. This research focuses on testing and comparing various types of collar strategy option using the Black Scholes method with historical variance and GARCH (1,1) variance on JII in the period of one and three months. According to Sinclair (2010), the collar strategy is a combination of a covered call option and a protective put option. The collar strategy provides limited profits but the collar provides hedging with little or no cost if the buying price of the put option is the same as the selling price of the call option. Based on the above phenomenon and previous research, this research aimed at comparing the Black Scholes and GARCH models using the Collar Strategy as a Hedging Effort in the Jakarta Islamic Index (JII).

Keywords: Black Scholes, GARCH, Jakarta Islamic Index, Option Contracts