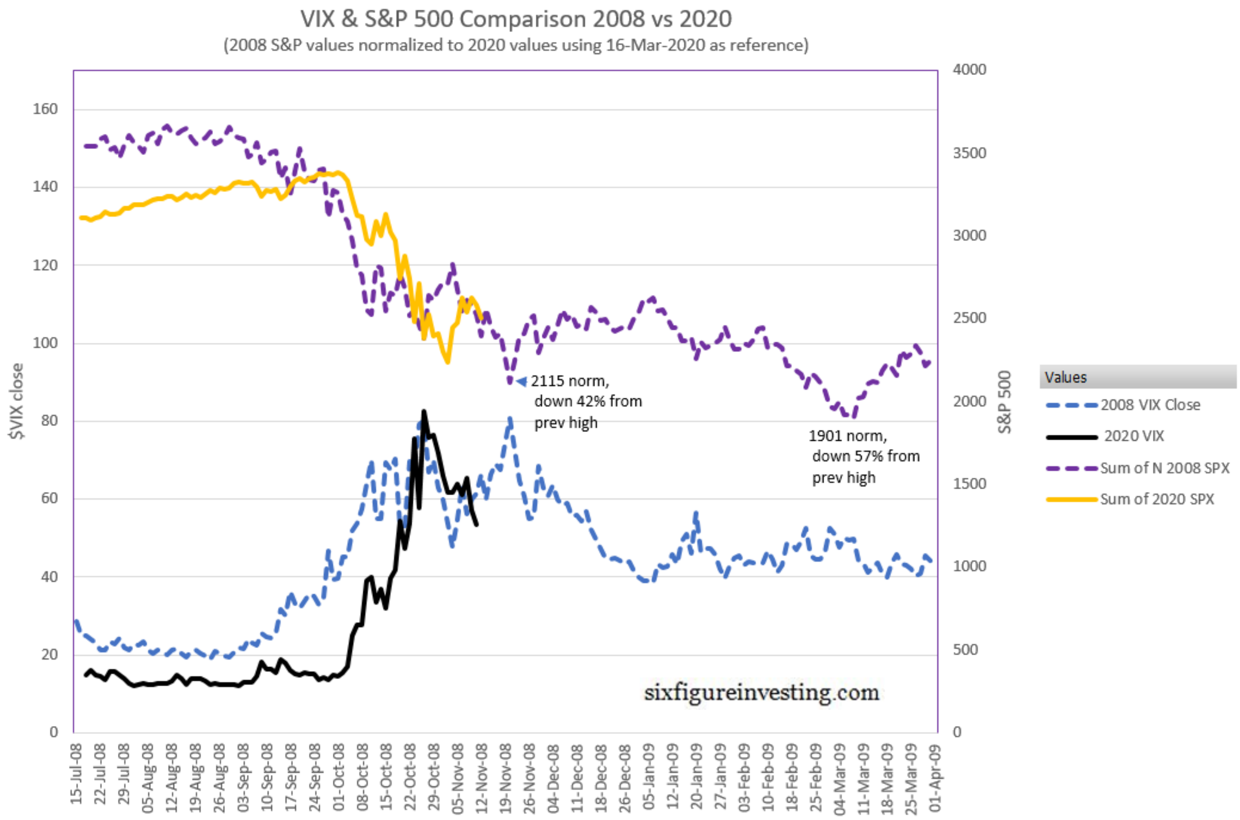
Six Figure Investing: April 2020 Newsletter

Link to sign-up for newsletter email https://sixfigureinvesting.com/free-newsletter/

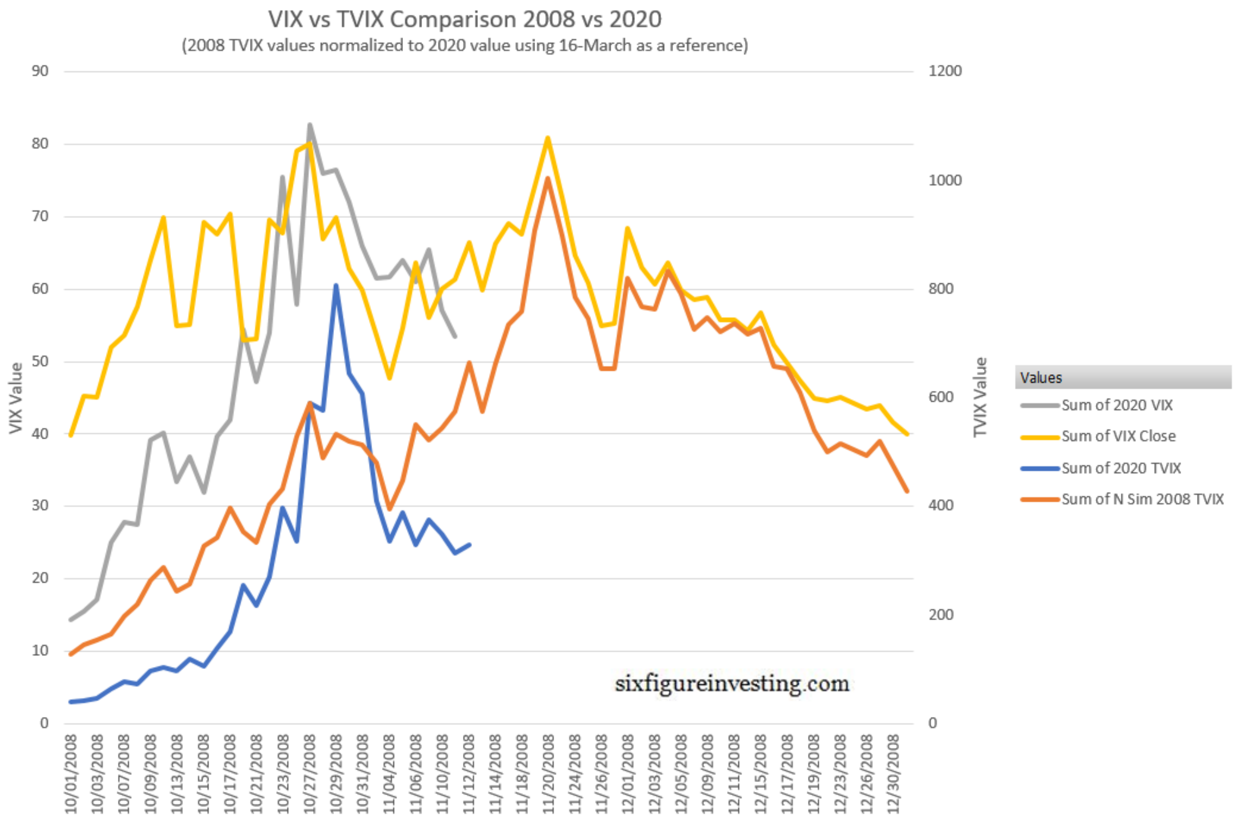
Market Turmoil

For the first time in twelve years, we find ourselves in another bear market. While trying to figure out where the market is going to do next it never hurts to look back at what the market has done in the past.



This chart syncs up the data from the late 2008/early 2009 bear market with what we've experienced so far in 2020. I aligned the two timelines matching up the VIX spike on 27-Oct-2008 with the VIX spike on 16-March-2020. The range-bound VIX requires no additional manipulation but the S&P 500 (SPX) was trading quite a bit higher (2386.13) than it was on that day in 2008 (848.92).   I adjusted the historic SPX values up to match the 2020 values by multiplying by 2386.13/848.92 = 2.8108. Thus normalized, the equivalent value to the 2009's low close of "676" in March is 1901. Notice there were numerous "false dawns" before the final market swoon and recovery in March 2009, 133 days after the first VIX spike.

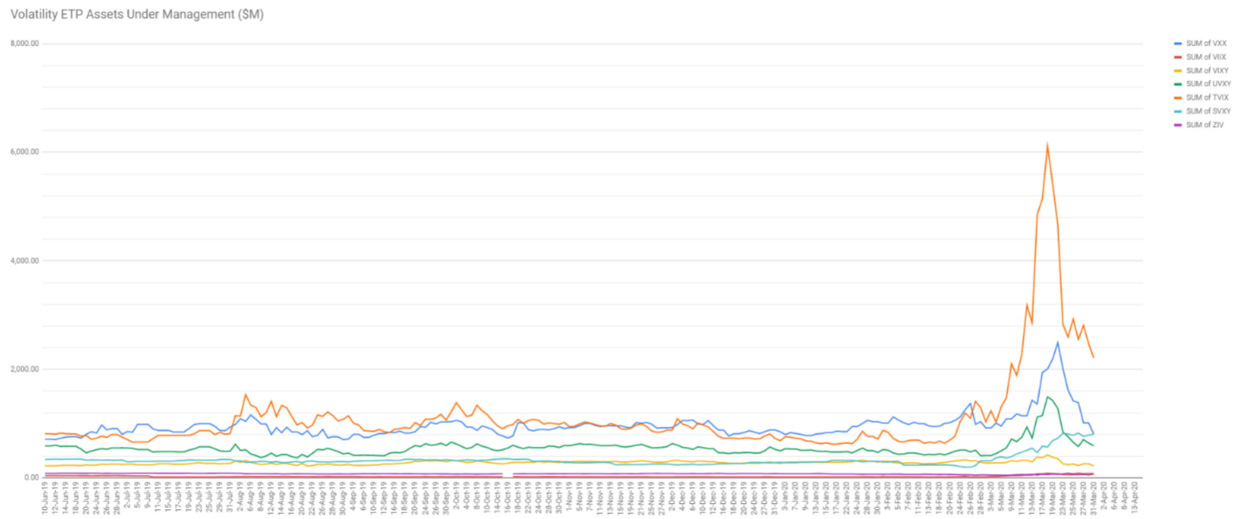
I generated a similar chart for VIX vs simulated TVIX values.



The simulated TVIX didn't peak until the 2nd VIX spike that occurred on 20-Nov-2008, fueled by backwardation and curve shifting in the VIX futures.

The huge growth in TVIX & UVXY assets driven by this volatility run-up has put some pressure on the VIX futures market. These leveraged products need to re-leverage their portfolios at the end of the day, and their buy or sell needs are always in the direction that the market has moved. The cash value of the buy or sell is the previous day's fund assets multiplied by L*P where L is the leverage factor (2 for TVIX) and P is the percentage move in the fund that day (20% =.2).

The next chart shows the recent wild ride in the assets of the volatility Exchange Traded Products.



With TVIX and UVXY assets peaking at around $6B and $1.5B, this could have put serious pressure on the liquidity of the VIX futures. This positive feedback effect is what probably blew up XIV and SVXY on 5-February-2018. It appears that Credit Suisse has been working on this problem since then because it's pretty clear through this latest volatility peak that they are using alternative ways of hedging besides the straight 1st and 2nd-month VIX futures. Possibilities include VIX options, other ETPs (e.g., VXX), other VIX futures months, and SPX option plays. Whatever their strategies, the net result was that liquidity of the VIX futures continued to look good.

Other Volatility News

UBS decided to shut down their EVIX & EXIV long / inverse volatility funds that are based on the European VSTOXX volatility futures effective April 9. I suspect this occurred because they never gathered enough assets to be profitable. This drops the number of USA tradeable volatility Exchange Traded Products down to 11. See Volatility Tickers for a for a complete list of the USA funds.

New Six Figure Investing Products

Since my last newsletter, I've added two new products, daily calculations of longer-term VIX style calculations, the CBOE's VIX3M (93-day) and VIX6M (184-day) indexes, back to January 1990. The CBOE provided only provided historical data on these indexes back to 2008. With three decades of data available it has become pretty apparent that the VIX style volatility structure is shifting (steepening) over time. Trading strategies that assume that ratios of these indexes (e.g., VIX/VIX3M or VIX/VIX6M) are stable over time may be becoming more conservative or aggressive than originally intended.

For a summary of all the products I offer see this page.

Six Figure Investing Consulting

In June 2019 I partnered with Invest in Vol to broaden and deepen the consulting services we are able to offer. This press release and link provide more information.

Six Figure Investing Posts (2019 & 2020)

- **What Caused the Volatility Tsunami on February 5th, 2018**
  Four factors that combined to kill XIV and mangle SVXY.

- **No, the VIX is not broken**
  Everyone pays attention to the VIX but it's quirky. Seven subtleties you should know.

- **Deciding What to do Next**
  A dozen questions to ask when it's time to make a tough decision.

- **Goodbye VXXB, We Hardly Knew Ye**
  We're back to the old VXX & VXZ tickers but some things have changed.

- **Black & Scholes Formula for Put/Calls in a Single Excel Cell**
  If you are needing to do real options work in Excel, this cell packs a punch. A free spreadsheet with examples is included.

- **Calculating the VIX3M back to January 1990**
  Computing 93-day volatility with the Cboe's VIX methodology

- **Calculating the VIX6M back to January 1990**
  Computing 184-day volatility with the Cboe's VIX methodology

Twitter @6_Figure_Invest

There is an active group of #fintwit participants on Twitter providing a lot of good information. On my follower page you can see who I'm currently following. I use the "tweetdeck" app to manage my twitter feeds—it helps a lot.

Best Regards,

Vance Harwood

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