

VIX Spike and XIV Termination - Invest In Vol, The Volatility Advisor Explains

Confusion exists over the large VIX spike on Monday, February 5, 2018, the termination announcement of XIV, and the impact on VIX ETFs. Invest In Vol would like to help clarify.

Invest In Vol – The Volatility Advisor would like to help clarify the results of the VIX spike on Monday, February 5, 2018.

On Monday, February 5, 2018, the CBOE Volatility Index (VIX) spiked 115.6% from its close of 17.31 on Friday, February 2, 2018 to a close of 37.32 on Monday, February 5, 2018. At the same time daily inverse VIX Exchange Traded Products (ETPs), including the VelocityShares Daily Inverse VIX Short-Term ETN (XIV) and the ProShares Short VIX Short-Term Futures ETF (SVXY) suffered significant losses, and prompted Credit Suisse to announce the termination of the present tranche of XIV, with its last trading day on Tuesday, February 20, 2018. No announcement of a replacement has yet been made.

Some confusion exists over what these VIX ETPs track. Instead of tracking the well-known VIX Index, both of these daily inverse ETPs track the inverse of the VIX Short-Term Futures Index that references the prices of two near-term VIX monthly futures contracts – in this case VIX futures contracts expiring Wednesday, February 14, 2018 and Wednesday, March 21, 2018. On Monday, February 5, 2018, these futures contracts spiked from a settlement on Friday, February 2, 2018 of 15.625 and 14.975 respectively, to a settlement of 33.225 and 27.975 on Monday, February 5, 2018 - rises of 112.6% and 86.8%. This move translated into a spike in the VIX Short-Term Futures Index of 96.1% between its close on Friday, February 2, 2018 and its close on Monday, February 5, 2018.

The daily inverse ETPs, including XIV and SVXY, track the inverse of this VIX Short-Term Futures Index, and the rise of 96.1% on Monday translated approximately into a fall of 96.1% for the ETPs from settlement to settlement. A doubling of the index could have resulted in a 100% loss in the inverse products.

“Monday demonstrated just how risky inverse volatility products can be” said Dr. Stuart Barton, CFA, Partner and Portfolio Manager at Invest In Vol. “We focus much of our time on investor education, trying to help investors understand these products better and avoiding excess risk. Importantly, Invest In Vol takes a more conservative approach to volatility investing and the Balanced Volatility Strategy was able to turn a profit during the chaos. ”

About Invest In Vol

Invest in Vol (IIV) is a Registered Investment Advisor that focuses exclusively on volatility investing. IIV offers Separately Managed Accounts to individual investors, institutions, and advisors across the globe. For more information about Invest In Vol, please visit <http://www.investinvol.com>.

The above information should not be regarded as investment advice or as a recommendation regarding any course of action. For a more complete disclosure, please visit <https://www.investinvol.com/disclosure>.



Contact Information

Justin Young

Invest in Vol, LLC

<http://www.investinvol.com>

2039986005