Seeking Alpha α

The New SVXY: How Will The Revised ETF Perform Compared To ZIV And To The Old SVXY?

Mar. 2, 2018 9:00 AM ET91 comments
by: David Easter

Summary

- ProShares changed the rules for SVXY, effective 28 February 2018, partially to decrease the risk of ruin.
- Historical data are used to compare performance of the new SVXY ETF to the old SVXY/XIV and to ZIV.
- In general, the new SVXY offers greater potential gain, but at a higher risk compared to ZIV.
- Compared to the old SVXY/XIV, the new SVXY ETF offers less potential for gain, but at lower risk.
- The risk of a volatility spike that will shut down the new SVXY is significantly reduced, but not eliminated.

Effective 28 February 2018, ProShares changed the investment goal of ProShares Short VIX Short-Term Futures ETF (SVXY). Specifically, SVXY "*will change its investment objective to seek results (before fees and expenses) that correspond to one-half the inverse (-0.5x) of the Index for a single day. The Fund's investment objective currently is to seek results (before fees and expenses) that correspond to the inverse (-1x) of the Index for a single day*. "

The change was a response to the February 5 explosion in volatility that resulted in the termination of VelocityShares Daily Inverse VIX Short-Term ETN (XIV) and in a two-day drop in SVXY of 88.4%.

The new goals implemented by ProShares brought an abrupt end to trading strategies that were based on inverse short-term futures ETPs like XIV and the old SVXY, which I will label *SVXY 1.0*. One question that arises is: How will the *new* strategy, which I will label *SVXY 0.5*, compare to VelocityShares Daily Inverse VIX Medium-Term ETN (ZIV)? And how will prices of SVXY 0.5 compare to those of SVXY 1.0 and XIV?

Although the future cannot be predicted, we can accurately analyze how the price changes of SVXY 0.5, ZIV, and SVXY 1.0/XIV would have compared in the recent past.

Raw Data

Raw data for VX futures were downloaded from the CBOE website and then transformed into a spreadsheet of futures prices, organized in columns by months-to-expiration [see note in the Appendix at the end of this article]. Continuous data for F1 and F2 futures go back to 8/21/2006 and continuous data for F4-F7 futures go back to 4/21/2008. We used these as the beginning dates for calculations of inverse short-term futures ETPs and for inverse mid-term futures ETPs respectively.

Raw historical data for XIV, ZIV, and SVXY 1.0 were downloaded from Yahoo! Finance.

Calculation of Indicative Historical Prices

We have discussed the exact calculation of indicative prices for XIV and SVXY 1.0 in detail in two previous Seeking Alpha Articles: *Why XIV Appreciates In Value: Debunking The Myths And Misconceptions About Contango* and in the *Appendix* of *How Volatility And The Roll Yield Contribute To The Price Action Of VXX In Different Market Environments*. That methodology was used to calculate the historical *indicative* prices of XIV and SVXY 1.0 from 8/21/06 through 2/27/18.

To calculate the indicative prices of ZIV from 4/21/08 through 2/27/18, we followed the methodology documented in the Index Methodology and the ZIV prospectus.

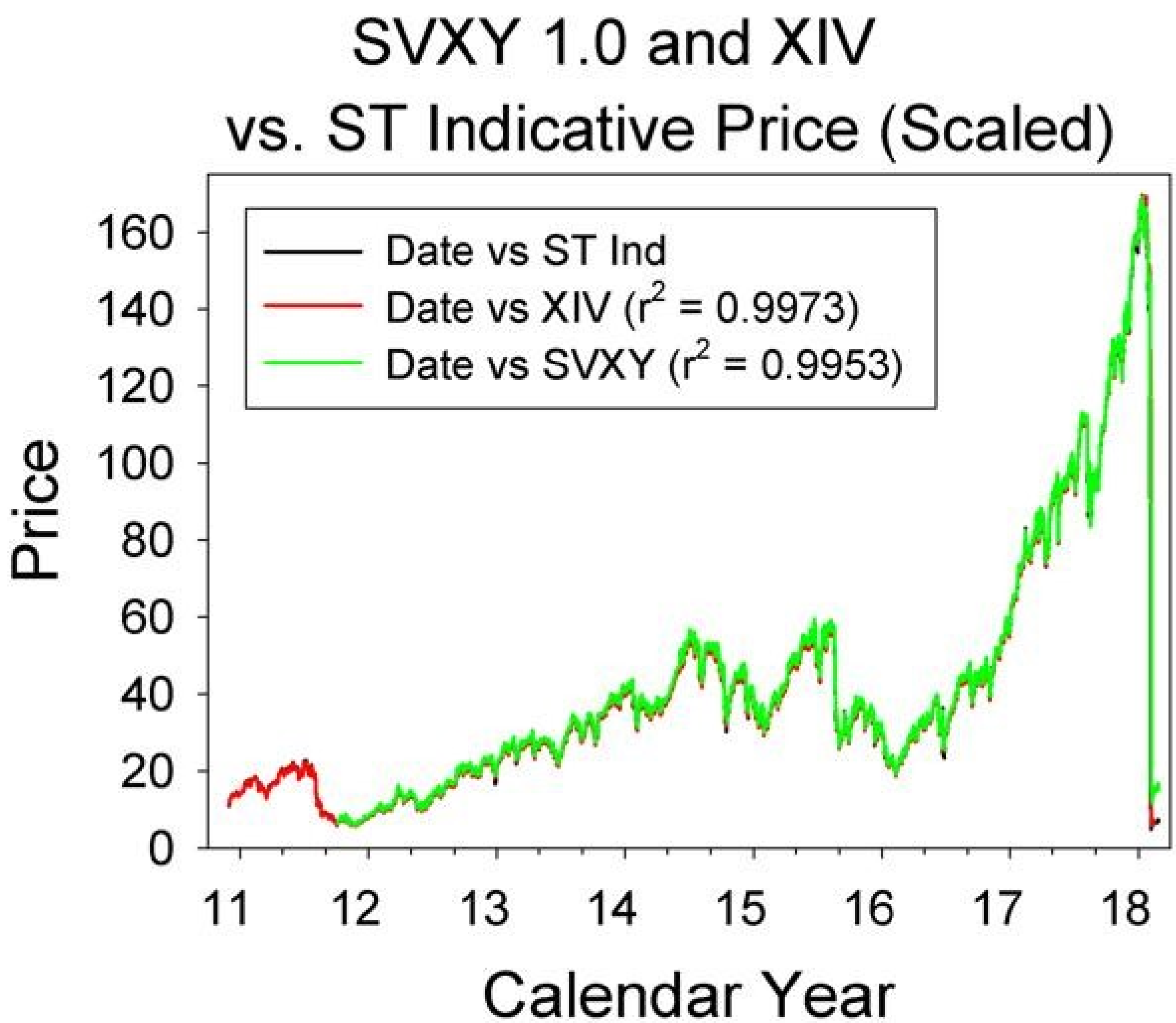
To calculate the indicative prices of the new SVXY 0.5 from 8/21/06, the daily index changes for -1.0 (inverse) short-term futures were divided by two.

We included an annual 1.35% ETP fee in all three calculations. Furthermore, all indicative price calculations arbitrarily assigned an *initial* value of $10.00 per share on 4/21/08.

How well do the calculated indicative prices compare to actual ETP Closing Prices?

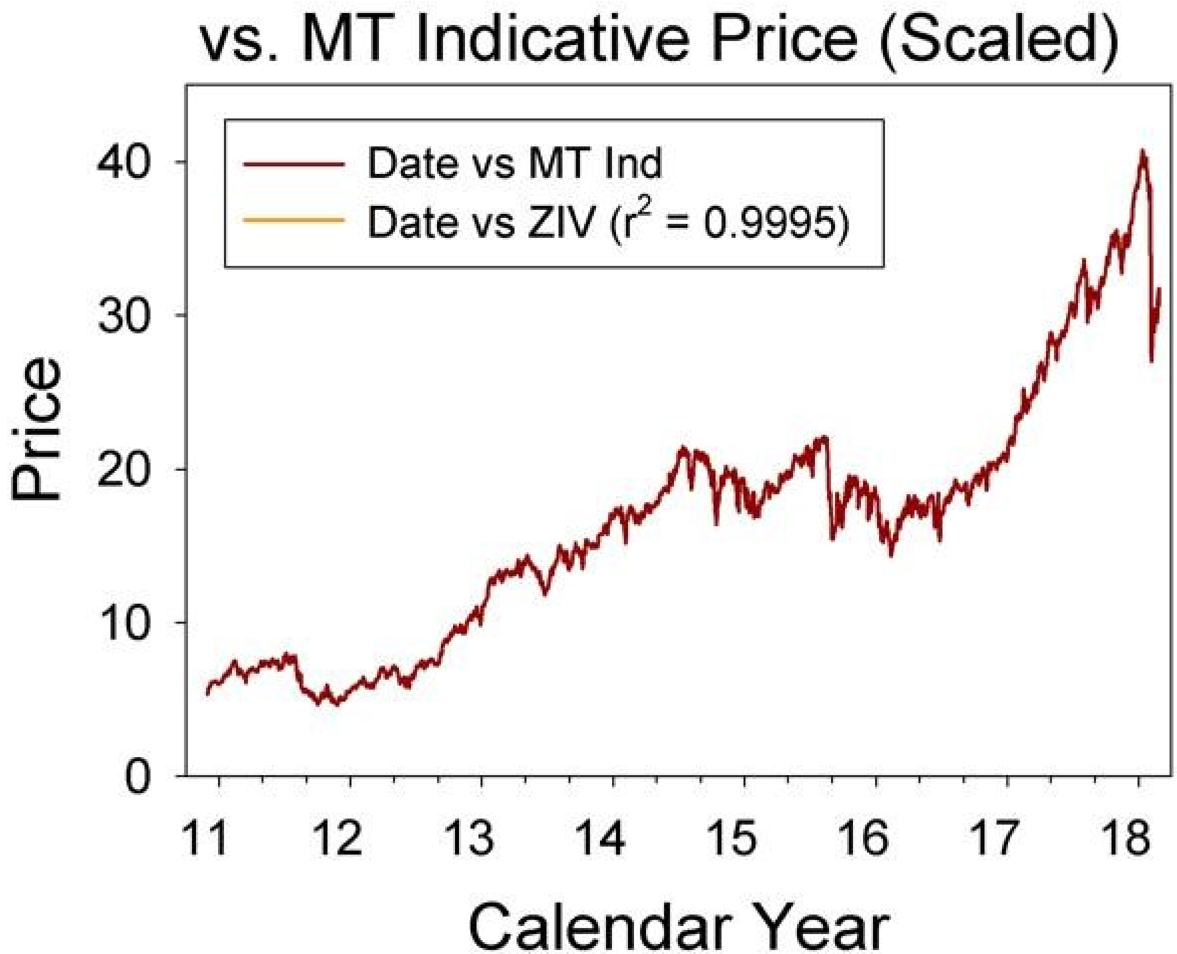
Indicative prices do not track market prices exactly. Among the reasons for this, two stand out. First, intraday ETP prices are influenced both by traders and by changes in the index. It is common to observe a tracking error, i.e., a difference between the instantaneous indicative price and the market price of an ETP. Second, ETPs close when NYSE closes (4 pm ET), but futures settle (and the relevant indices close) when CBOE trading closes (4:15 pm ET). The 15-minute difference between the ETP close and the FX futures (and indicative value) close guarantees that the correlation between closing and settlement prices will be less than perfect.

That said, the historical correlation of both XIV and SVXY 1.0 to their indicative values is very robust, as seen in the following figure. All historical prices of XIV and SVXY 1.0 are plotted, as are the calculated values of their indicative price. Actual XIV and SVXY 1.0 closing prices were divided by 0.8546298518 and 0.817265034 respectively, to make all three on the same scale. Closing indicative prices are plotted in black, XIV ($r^2 = 0.9973$) in red, and SVXY 1.0 ($r^2 = 0.9953$) in green. Although day-to-day fluctuations occur, the validity of the longer-term correlations is self-evident.



The historical correlation of ZIV to its indicative value is even stronger, as shown in the following figure. All ZIV historical values ($r^2 = 0.9995$) are plotted in orange and the comparable calculated indicative values are in burgundy. The fact that no orange can be observed in the curve makes it clear that there is no separation between the historical ZIV prices and the calculated indicative prices.

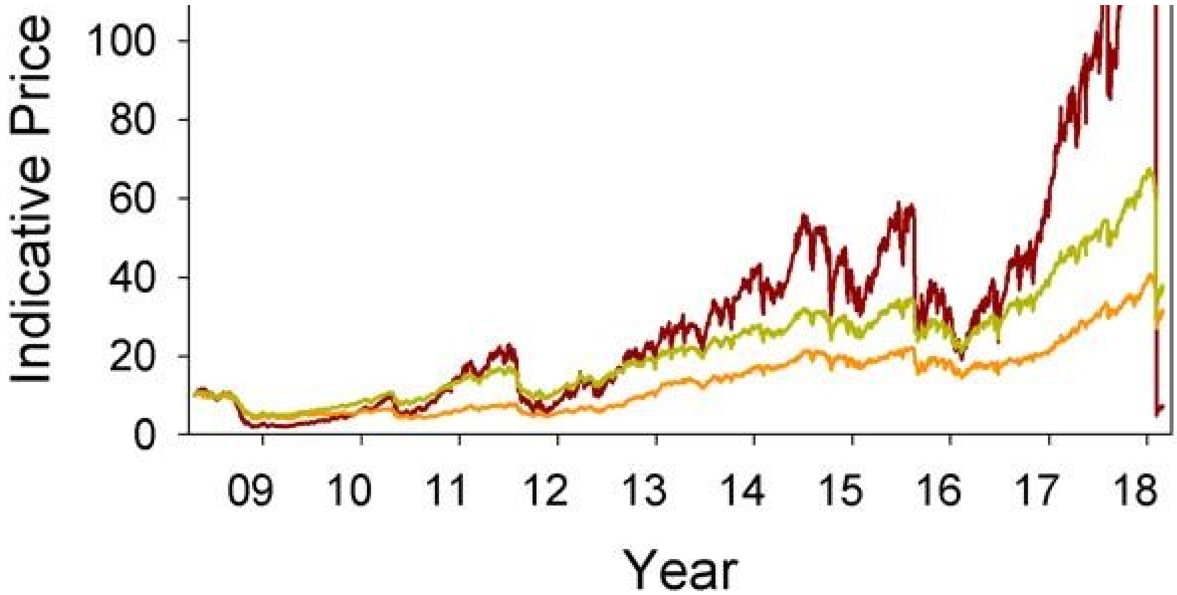
ZIV



The preceding two figures serve a single purpose: to verify that our calculated indicative values are an excellent and accurate representation of actual (closing) values. This provides assurance that the calculated indicative historical values of SVXY 0.5, based on ProShares' new investment goals, will also be realistic.

Comparison of the Indicative Values of XIV/SVXY 1.0, ZIV, and SVXY 0.5 since 4/21/08.

The following figure compares the three historical indicative values. All three prices are scaled to an initial value of $10. XIV/original SVXY 1.0 is plotted in burgundy, ZIV in orange, and the new SVXY 0.5 in gold.

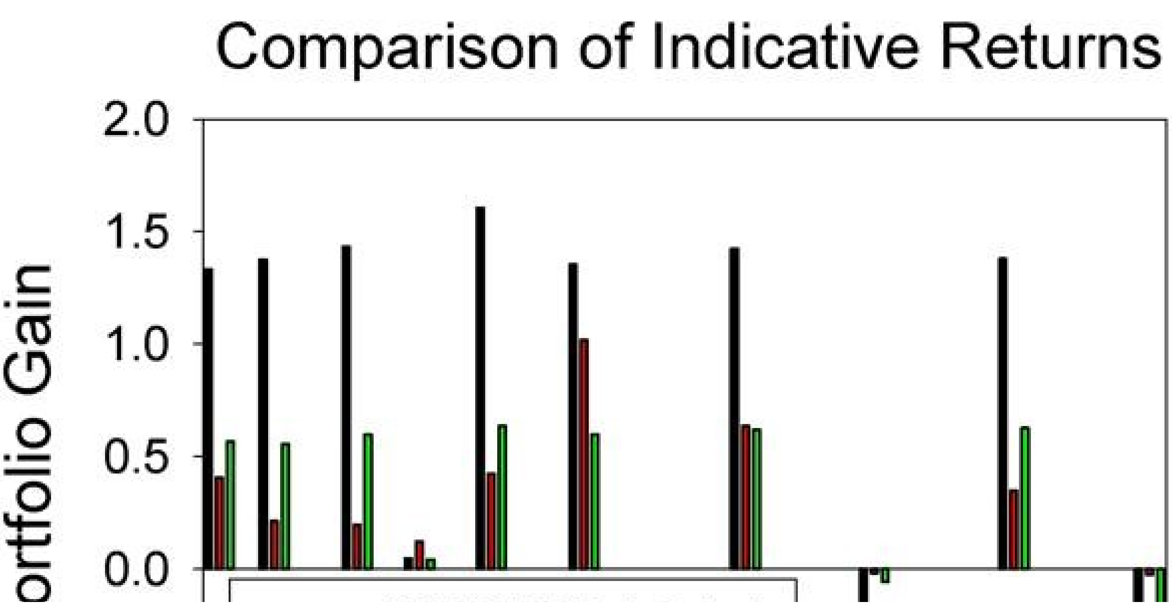


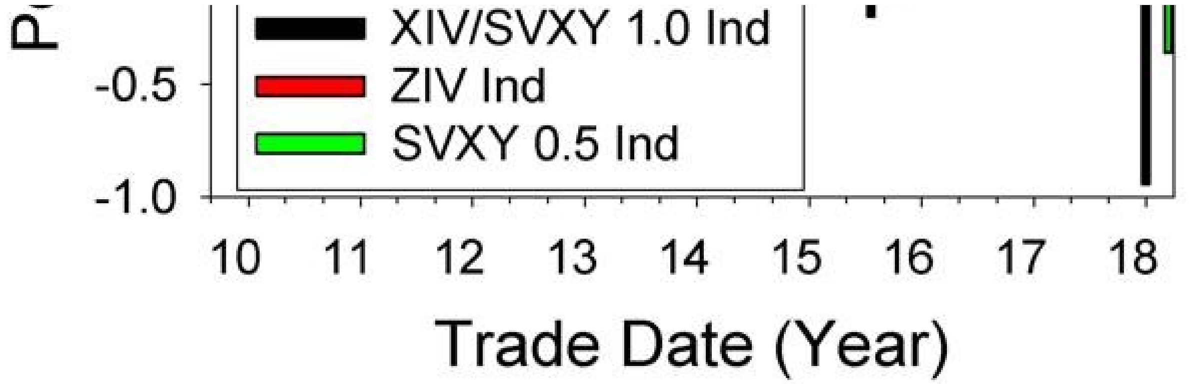
From the figure, it should be clear that the volatility of the new SVXY 0.5 is between that of the old XIV and ZIV. Therefore, for traders who are looking for greater potential reward at a higher level of risk, the new SVXY 0.5 is preferable to ZIV.

Corroboration from Selected Data

The following figure supports these conclusions. The figure shows outcomes of ten trading cycles. Given the same buy and sell dates, the results are shown for XIV (black), ZIV (red), and SVXY 0.5 (red). Note that the results are based on indicative prices, not actual market closing prices.

The beginning/end dates of the ten trading cycles shown are: 12/11/08-10/22/09; 11/2/09-4/20/10; 5/12/10-1/14/11; 3/16/11-8/5/11; 11/16/11-3/26/12; 5/21/12-1/22/13; 2/26/13-7/1/14; 10/21/14-8/24/15; 2/17/16-11/21/16; and 4/24/17-2/5/18.





Appendix: A note on historical VX Futures prices. Historical futures prices can also be downloaded as two separate spreadsheets from The Intelligent Investor Blog website. The data in these spreadsheets predate when VX futures were available that consistently covered all of the front seven months without any exceptions. It is not clear to this author how the missing values were derived. In addition, thirteen of the numerical values posted at that website differ from my own. The differences are: 2/19/08-F1 & F2; 3/18/08-F1 & F2; 12/21/11-F4 & F5 & F6 & F7; 9/19/12-F4; 8/25/15-F2; 2/11/16-F1 & F2; and 8/9/16-F1.

Disclosure: I am/we are long ZIV.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Like this article

Comments (91)

kloc
Hi David,

Thanks for the excellent analysis. I've been wondering about the same thing ("new SVXY' vs. ZIV) since the moment I saw the news.

I run a similar analysis, but in a "lazy" way:
- I used SVXY prices in order to calculate historical daily SVXY returns,
- multiplied them by 1/2, and
- then "reassembled" them by doing cumulative product of 1+daily_return for the whole history.

However, my results are somewhat different: according to my calculations, for the period 2011-10-05 onwards (that's SVXY start date AFAIK) ZIV is actually better than "new SVXY" both in terms of risk and return. If I take 2017-12-29 as the last date (I omit the horrors of 2018 on purpose from the analysis; however, that only makes my point stronger)"

CAGR
SVXY: 69.92%
SVXY new: 34.96%
ZIV: 37.74%

Realized Volatility
SVXY: 62.12%
SVXY new: 31.06%
ZIV: 29.33%

MaxDD
SVXY: -67.94%
SVXY new: -39.93%
ZIV: -35.08%

Essentially, I don't know why would anybody touch the new SVXY? People should just switch to ZIV and forget about SVXY altogether. The only advantage might be the availability of options, but for "buy and hold" ZIV looks like a clear winner...

-kloc

02 Mar 2018, 09:15 AM

Robin Heiderscheit
@kloc

I liked your approach to the new SVXY vs. ZIV issue.

I think the new SVXY would outperform ZIV, even for buy and hold, if we enter a period like 2004-07 where the front part of the vix futes are quite steep and the back part of the futes are quite flat. Today of course we have the second requisite but not the first. So we will see.

02 Mar 2018, 09:59 AM

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kloc
Hats off to you, Robin - I think you just answered my question for David. :-)

His first two plots cover the same (at least approximately) period like my analysis. However, his third plot goes all the way back to 2009 (I missed that). The new SVXY would have sufficiently outperformed ZIV from 2009-2011 and compensate for its underperformance from 2011 onwards. Makes sense since the front part of the curve must have fallen down like crazy and its slope was probably quite steep as you pointed out...

02 Mar 2018, 10:46 AM

David Easter, Contributor

Robin Heiderscheit
For awhile there was this ETP named XVIX, which ran a strategy of shorting 1x the front part of the futes and being long 2x the back part.

It backtested beautifully. I think maybe 15% annually with a Sharpe of like 3, I mean something ridiculous. So the sponsor duly trotted it out in like 2006 (doing all this from memory).

Anyway, fairly quickly (after the Crash) the back part of the futes got super steep and stayed that way (as I know you know) pretty much until now. So XVIX ended up being flat for years, lost all its volume, and was terminated.

In general I think one has to be EXTREMELY modest with regard to what we know and don't know about the future shape of the Vix futures curve.

02 Mar 2018, 11:14 AM

kloc
Good point about the fee David! As I mentioned, my approach was a lazy one... :-)

02 Mar 2018, 12:26 PM

kloc
Yup - I remember that as a strategy (XVIX does ring a bell, but I didn't remember the details of this ETP until you mentioned it).

Basically, as soon as the front "slope" of the curve becomes less than 2x steeper then the middle slope, the whole thing stops working...

02 Mar 2018, 12:28 PM

itscalledcommonsense

Buy n hold any of these is stupid.

02 Mar 2018, 03:26 PM

Market Trends Investor, Contributor
Somebody tweeted a chart that Vance Harwood retweeted, comparing old SVXY, new SVXY, and ZIV. ZIV was the winner in outperformance. Can't find source of person who made chart, etc. But here it is: http://bit.ly/2FNuMqk

03 Mar 2018, 07:08 AM

v1Trader
Ilya Kipnis generated that plot, in this blog post:

http://bit.ly/2FNcu8L

03 Mar 2018, 08:12 AM

v1Trader
Oops! No, I'm wrong, not Ilya in that blog post. Somebody else using R code to backtest and generate graphs :-)

03 Mar 2018, 08:36 AM

Market Trends Investor, Contributor
Looks like that blogger thinks XIVH has the most bang (beta) for overall bull market setups. Its volume is still quite sketchy, but will probably pick up. VMIN which is changing March 7th to its milder version should be interesting as well. VMIN and ZIV should behave quite similarly, with maybe a slightly higher beta for VMIN.

03 Mar 2018, 05:18 PM

Algyros
Thanks for the article, David.

Will you now be using ZIV or XIV for your volatility strategy?

02 Mar 2018, 09:24 AM

sunrsky
Thank you David Easter for a superlative quantitative analysis, I calculated similar results using 1/2 the percentage daily returns of XIV (as a proxy for SVXY) from March 26, 2004.until February 5, 2018 using The Intelligent Investor Blog data

02 Mar 2018, 10:13 AM

Lear9er
David .. Thanks for your continued work.
I'll take time to go thru and come back with questions.

02 Mar 2018, 11:08 AM

Lear9er
Hi David: I was wondering why are you currently long ZIV.
Can you please elaborate.

thanks ..

02 Mar 2018, 11:19 AM

David Easter, Contributor
Author’s reply » Learner,
My old vol trading strategy triggered a buy signal over a week ago. At that time XIV had vanished and the future of SVXY 1.0 was not at all clear, so I opened a position in ZIV, which did not appear to be in danger of being changed.

Algyros,
Going forward, I will have to completely revamp my vol strategy. The preference between SVXY 0.5 and ZIV is yet to be determined.

02 Mar 2018, 11:31 AM

Gary Malamud
Hi David, what is your opinion on the new mean of $VIX? What you considering new low $VIX?

02 Mar 2018, 05:23 PM

Market Trends Investor, Contributor
You should peek at VMIN and XIVH as well.

03 Mar 2018, 05:20 PM

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dekarate
Anyone look at what the VIX would have to do in a day zero out the SVXY? If I recall the old SVXY needed 83% or something similar. I suspect with he next 0.5 factor, its damn near impossible?

02 Mar 2018, 11:28 AM

Sunil119
Thank you for the great article. i was looking for how this works out.

02 Mar 2018, 12:30 PM

nickaz99
Two points to keep in mind in regards to SVXY(lite) v ZIV.

1. SVXY requires a K1. Usually not tax desirable but depends on your particular tax situation of course. ZIV is treated like common stock for tax purposes.

2. ZIV is an ETN while SVXY is an ETF. There is counter-party risk with CS going forward. Many have lost trust in them given XIV closing. ZIV can go to 0 entirely due to the financial state of CS regardless of the VIX futures curve.

I'm still not sure which path I will choose.

02 Mar 2018, 01:52 PM

Market Trends Investor, Contributor
VMIN has no K1.

03 Mar 2018, 05:23 PM

SleafordTrees
Great article, thanks. After that massive SVXY fail, why would anyone put money it it? Man, that was such and epic, epic fail. Not sure how it was legal, yet the idea of any Bitcoin or Crypto ETF or Mutual fund has been deemed to 'risky' by the SEC and I guess they are protecting people from losing money. Nice.

The crappy thing about SVXY, is many of use were buying exactly because risk spiked, heck, that is kind of what it was set up for, ha.

02 Mar 2018, 02:08 PM

31October
Q: "After that massive SVXY fail, why would anyone put money it it?"

A: Because what *could* happen *has* happened.

02 Mar 2018, 03:47 PM

SleafordTrees
So, could happen again, all that really matters.

03 Mar 2018, 01:43 AM

David Easter, Contributor
Author's reply » For anyone interested, I have posted my calculated SVXY 0.5 indicative prices here: http://bit.ly

/2tfCebi. You can find the link to the Excel file in the first listing under "Articles". Column 2 has prices that are scaled to match SVXY's closing price of 12.39 on 2/27/2008. (These prices will be continuous with ongoing SVXY 0.5 market prices.) Column 3 contains the values that were plotted in Figure 3.

02 Mar 2018, 02:50 PM

SleafordTrees
David, great chart and really appreciate the time. So... the question is how does that chart compare to UPRO over the same time period?

03 Mar 2018, 01:48 AM

DividendsUberAlles
Eh I bought some svxy just for the novelty.

02 Mar 2018, 02:53 PM

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foad50ad
What spike in vix index it will wipe out new svxy (-.50 inverse of two months vix future). With previous policy it was almost %124 spike in vix index ,can we say with new policy it takes almost %250 spike in vix index to wipe out new svxy. Thanks

02 Mar 2018, 02:54 PM

Sunil119
SVXY new does not have the charm (with risk/reward); its pretty much closely like ZIV returns but more risk. so why SVXY new. i am just learning, i could be very wrong. of course ZIV has so low volume + CS product thats worrying.

02 Mar 2018, 03:36 PM

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foad50ad
@ Sunil119,
Hi, if you look at a chart above you see svxy (new) has more return in total ,

02 Mar 2018, 04:01 PM

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ganswijkw
foad50ad.
svxy was/is short the 'continuous one month' (vix)future {cof}. not vix itself. therefore, the spike of the vix is not decisive. the spike of the cof is the only factor for pricing of or terminating svxy....

02 Mar 2018, 04:26 PM

ganswijkw

cof is a theoretical future of always 1 month lifespan.

to be 'build' by a constant altering mix of 1 and 2 month futures.

02 Mar 2018, 04:29 PM

foad50ad

If we are looking for great return in long run with some risk , isn t better to buy something like qld(2xqqq)

02 Mar 2018, 04:33 PM

foad50ad

I lost big time on svxy recently that i am sure it is never going to recover , and i had large portion on my account in qld (around $8) before crash in 2008-2009 and it drop to $3 , and i hold it and turn to nice profit after few years , now why any body take risk with svxy or ziv when we can get higher return and safer trade with qld (If nasdaq drop %50 in one day it will wipe out qld , which is unlikely) . Any idea, Thanks

02 Mar 2018, 05:25 PM

lilkanna2018

The ZIV will go up 30 fold in 10 years. So it will double basically 5 times in 10 years. If that is not enough, then look for something more aggressive.

03 Mar 2018, 01:01 AM

itscalledcommonsense

No, it won't.

03 Mar 2018, 06:25 AM

alpha_guy

@lilkanna2018, how do you figure that? You're likely off by a full order of magnitude - if it went up even 3 fold in 10 years that would be surprising.

07 Mar 2018, 10:01 AM

Robin Heiderscheit

Well lilkanna will turn out to be right if the back end of the vix futes goes into steep and I mean steep contango AND the futes don't exhibit too much volatility.

Such an outcome would be likely AFTER a major volatility shock. What we just had was IMHO not such a shock because it was mostly confined to the front end of the futes.

07 Mar 2018, 10:26 AM

lilkanna2018

foad50ad
Largest nasdaq drop in 1987 was %11 , not even close to wipe out qld .

02 Mar 2018, 05:31 PM

davidhenco
Halving the risk and the reward could be just what future investors in this kind of product will be looking for, in retrospect to February's incident. But those who were long SVXY or HVI and haven't yet gone to cash, and thought maybe getting back in the game by doubling down on the number of shares will have to wait a lot longer before getting a fait return on investment.

02 Mar 2018, 07:32 PM

lpitzalis
Thank you for the nice analysis David. I too will be using ZIV going forward.

02 Mar 2018, 08:14 PM

iconstockkilledme
Bumping this article so I don't have to pay for it in the future.

I was surprised to learn that ZIV is still up about 300% since its 2011 inception. What, 20% per year? Really solid considering three big VIX spikes in that span.

03 Mar 2018, 05:02 AM

foad50ad
QLD is up 600% since 2011 , why go with ziv with higher risk and less return, i am not a professional trader , i just want to understand the reason to go with a product like ziv.
i appreciate any comment. Thanks

03 Mar 2018, 09:26 AM

swilner
if you believe (and are willing to bet) that the Nasdaq will be much higher [X] years from now, then QLD will likely (but not necessarily) make you more money. ZIV (and similar products) capture something different. Even if the market is not much higher, so long as there is contango in the volatility futures term structure, these inverse volatility products will be dragged higher. ZIV/SVXY capture aspects of reversion to the mean

with respect to volatility.

03 Mar 2018, 10:34 AM

iconstockkilledme
QLD will only work if we never have a down stock market year again. The double daily compounding would kill if it markets ever went down. Having said that, with 2018 being the 10th straight up year for the markets, it's very possible we could see as many as 500 consecutive positive years for the markets.

03 Mar 2018, 10:34 AM

Sunil119
A very thoughtful question, I always question myself on the same..similar to using TQQQ/UPRO etc..(than using SVXY or ZIV).. the only reasonable judgement i had to myself was, UPRO/QLD/TQQQ all depend on how companies are doing, how much profitability etc...while ZIV/SVXY need contango..(feels like easy to measure).. i would truly love to hear some brainstorming to determine this. thank you

03 Mar 2018, 11:01 AM

jz30
"very possible we could see as many as 500 consecutive positive years for the markets."

Wow you must be some sort of tolkenian elf if you plan to be around for another 500 years.

03 Mar 2018, 11:21 AM

jz30
" i would truly love to hear some brainstorming to determine this"

There's no definite answer, so all these different products exist. These kinds of questions and differing viewpoints is exactly what makes and fuels markets.

03 Mar 2018, 11:23 AM

iconstockkilledme
Nah, I hope I won't even be around in 500 hours let alone years. Just sayin- unlikely markets will ever drop again.

I do think it's impressive ZIV has returned 500% in 7.5 or so years despite three pretty big VIX spikes. That's 27% per year. So the folks who say it's not a long term hold- I'm not so sure.

Granted, it has not gotten to the point where it is moving the VIX futures on its own as XIV/SVXY were causing them to explode.

03 Mar 2018, 12:13 PM

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foad50ad

Thanks for your respond, but if the market goes down vix index will be high and most likely futures (mid term future ,ziv) will be in backwardation as a result ziv go down as well ,even more
for example from Aug/01/2015 to jul/16/2016 which market did not go up ziv went more lower .
(market was flat but ziv was lower %16). Thanks for you comment.

03 Mar 2018, 11:13 AM

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foad50ad

Now the market is in correction i want to open a position and i wonder which one works better in a 3-5 year time period. That is why i bring these question.

03 Mar 2018, 11:31 AM

Sunil119

its very intriguing to me.. i totally see your point, you will have contango only when market is relatively very flat or up.(to my limited knowledge)....super crash will bring down everything anyways. at the sametime, once the crash is set, like Feb 5th, last week VIX didn't raise as much as it did in the past (like Feb 5th or Aug 2015)...
i am not an expert, once ZIV/SVXY are dropped phenomenally, it takes long time to get back to orginial time..while the short products of VXX/uVXY would have taken lesser time to get back to the prior aug 2015 values. this applies even Q1 2014 probably, SVXY was down by 5%, while VXX was also down by 7%. don't know about SPY at that time. (i hope it may have been flat).

03 Mar 2018, 11:33 AM

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foad50ad

@Sunil119

Upro is the whole market S&p 500 , there is no away that s&p 500 goes down and svxy/ziv goes up in a period of time , also upro or tqqq are 3x , so in a long term big correction over 25-30% they almost wipe out, but qld or,sso are 2x and in a big correction like 2007-2008 will survive,

03 Mar 2018, 11:45 AM

Ehoser

No, the 3x products are marked daily, so the more the indexes they are based on go down the smaller the loss. Example - let's say index ABC starts at 1000 and drops 1% per day for 30 days it would be at about 739. Let's say the 3x leveraged fund also starts at 1000 and drops 3% per day for 30 days, it would end up at about 401. Not great but not 3*30% down.

04 Mar 2018, 12:08 AM

foad50ad

Vxx/Uvxy are not to hold for a long time ,it will loose value overtime for a simple reason that historically 75% of the time vix future is in contango. for the same reason ziv/svxy go up overtime if no big spike in vix ,to wipe them up. But my question is for a long term 3-5 years which one is better and why ziv or qld ,sso. Again i am not a professional trader , i just want to understand the reason .

03 Mar 2018, 12:00 PM

DividendsUberAlles

But my question is for a long term 3-5 years which one is better and why ziv or qld ,sso. Again i am not a professional trader , i just want to understand the reason .

===

What you apparently fail to grasp is that question presumes knowledge of the stock markets future during those 3-5 years.

It's not knowledge about the products that are unknown : knowing the future with any precision that matters is the essence of your question.

Professional traders don't know the future any better than you do.

03 Mar 2018, 04:11 PM

foad50ad

I understand that nobody can predict the markets future , my argument is to compare qld, to ziv

in any market condition

1-Market goes up qld return is more than ziv

2-Market stay flat , qlt flat ,ziv most likely goes down example Aug/2015 to july/2016

3- Market goes down ziv drop more than qld, from july/2015 to feb/2016 qld drop14%, and ziv drop 20%

Now can we make conclusion that holding qld is better choice?

03 Mar 2018, 04:45 PM

davidhenco

The strategy, for many investors, was not a simple buy & hold. It was all about waiting for a VIX spike to buy shares, then buying more as the Vol went up. And finally dumping the shares once we had reverted to mean. This strategy has proved to be very effective the short or medium term. It probably still is, although the returns will now be halved.

04 Mar 2018, 08:50 AM

iconstockkilledme

foad50ad
Another advantage of holding qld is that qld has option , for example ;we could sell monthly covered call option 6% out of money at the same time sell put option 10% out of the money In case nasdaq drop 5% to have some more share and collect some premium each month.

03 Mar 2018, 04:55 PM

foad50ad
@David easter

I think the comparison return chart is not accurate ,in 2011, svxy/xiv 1.0 was down almost %50 as well as ziv by %8.

03 Mar 2018, 06:26 PM

David Easter, Contributor
Author's reply » foad,

If you are referring to the fourth graphic (histogram), the comparative returns cover specific entry/exit periods, which are clearly identified in the text. In other words, anything that happened outside of those time windows is not relevant to the histograms. [Note that more than five months of 2011 are not included within the specified time windows.] This is most likely the source of your confusion.

Alternately, if you are referring to any of the first three graphics, the dips that you describe are visually present.

03 Mar 2018, 07:16 PM

JAkanth
What VIX % spike may trigger a termination event for SVXY 0.5?

05 Mar 2018, 04:18 AM

iconstockkilledme
Almost afraid to ask, but any intrepid folks loading up VMIN here?

05 Mar 2018, 06:48 AM

ferrari2020

I unloaded my SVXY for VMIN, if I am going to swing trade inverse VIX funds I want maximum bang for the buck. I now realize how lucky I was when I held XIV for just over 2 months last fall & how close I came to losing it all, now I only play with the house money I am up on it, and never had more than 10% of my portfolio invested in it.
People that saw the big gains and kept holding and had 25% plus of their money in it were the same guys I see in Vegas blowing juniors college fund on roulette.
Now when is the 5x QQQ's fund going to come out?? j/k

05 Mar 2018, 07:30 AM

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itscalledcommonsense
http://bit.ly/2D0gGz5

05 Mar 2018, 08:51 AM

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iconstockkilledme
Probably right after the Fed is finished buying futures. They have goosed 50 points on the S&P in the past 5.5 hours, and hit UVXY for well over 20% since Friday, on no news- and that's impressive since UVXY is a 1.5 times now. If they ever audited the Fed the long S&P contracts and short UVXY positions would be shocking to many.

05 Mar 2018, 12:13 PM

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iconstockkilledme
Oh, that's a bummer. Especially when if they had just kept the old way VMIN would have probably been back at $50 in a few years.

05 Mar 2018, 12:14 PM

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alpha_guy
It's most unfortunate that SVXY (the original) and XIV are no more. None of the other vehicles are as appealing to me. That said, I'm surprised they were ever available to begin with. I suspect very few speculators putting money to work in these vehicles actually understood the risk.

SVXY/XIV were a legitimate strategy - particularly during volatility spikes and when properly hedged in case of being run over by the steamroller. Now that those pennies being collected are instead half-pennies, much of the allure is wiped out.

07 Mar 2018, 10:33 AM

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timex0
My guess is that someone will attempt to start another -1.0X product. The question is whether or not it will get regulatory approval after what happened. They probably castrated these products as a preemptive

measure against the regulators.

07 Mar 2018, 02:42 PM

David Easter, Contributor
Author’s reply » SUMMARY COMMENT

Thanks to all who have contributed to the discussion. Below I will summarize three important points that, in one form or other, have been raised.

First. Entry and exit points affect the result your calculations! My comparison in the third figure is based on indicative values, with a starting date of 4/21/2008. Kloc’s calculations are based on a start date of 10/5/2011, and the chart tweeted by Harwood appears to begin on 1/3/2011. The following CAGR values are based on my indicative values used in the third figure. All three are in the order (XIV, SVXY 0.5, ZIV). All three have a common end/exit date of 1/31/2018. For my 4/21/08 start date, the CAGR values are (31.4%, 20.6%, 14.7%). For a 1/3/11 start date, (38.4%, 24.2%, 29.7%). And for a 10/5/11 start, (63.5%, 34.8%, 38.7%). In the latter two periods, ZIV outperformed SVXY 0.5, which differs from the outcome shown in my third graphic. What is important to understand is that there is no contradiction! The calculated result depends on the entry and exit points that you choose.

Second. Volatility ETPs are not suitable for long-term, buy and hold “investing.” To quote the comment of ICCS: “Buy n hold any of these is stupid “. In my view, leveraged ETPs (like TQQQ and QLD) are equally unsuitable for buy and hold. Personally, if I were to make a buy and hold-forever investment, I would first wait until I believe that the current market correction is over, then I would pick high-quality, highly liquid ETFs like QQQ and/or SPY. SVXY 0.5, ZIV, QLD, and other leveraged/volatility ETPs are far too risky to buy and forget about for any long term.

Third. To trade volatility ETPs successfully, it is important to have a clear entry and exit strategy. For me, one of the most important questions (relevant to the topic of this article) is: How would SVXY 0.5 and ZIV compare in a trading cycle where I could have done extremely well with XIV/SVXY 1.0? That was partially the focus of the fourth figure (histogram). In that figure, 7 of the 10 XIV cycles shown were highly successful, with XIV gains of 130% or more. In 5 of the 7 successful cycles, SVXY 0.5 outperformed ZIV, in one cycle they performed approximately the same, and in the one remaining cycle, ZIV outperformed SVXY 0.5. The other 3 “unsuccessful” cycles in the figure demonstrate the flip side, when XIV ended up flat or negative. In all three “unsuccessful” trade cycles, ZIV outperformed SVXY 0.5. My personal takeaway is that SVXY 0.5 will tend to outperform ZIV in a successful strategy cycle, but ZIV will neither drop as quickly, nor lose as much, if your strategy turns out to be wrong and the trade goes against you.

Thank you for reading! Please feel free to continue the discussion.

David

07 Mar 2018, 03:00 PM

v1Trader

Thanks for the article and this summary comment, David. I've used your data now (thanks!) and applied it in my own volatility risk premium strategy, and find that SVXY 0.5 does outperform ZIV in CAGR, but not so much in risk-adjusted terms, particularly due to the smaller drawdowns from ZIV on big down days when the strategy called the market wrong (like Brexit). But I'm still exploring ways to possibly utilize both of them, while keeping an eye on the rest of the vol fund landscape as well (like the new VMIN).

08 Mar 2018, 11:52 AM

iconstockkilledme
Isn't VMIN basically the same as ZIV now?

08 Mar 2018, 12:34 PM

v1Trader
Expecting similar performance, but last update I saw suggested new VMIN would be weighted a bit shorter-term in the futures series, like 2-3-4-5-6 instead of 4-5-6-7 that ZIV uses. That should maybe give it a little more oomph in beta than ZIV has. But that wouldn't seem to utilize a currently published VIX index either. I'm several days out of date here, there may be more current news I'm unaware of yet.

08 Mar 2018, 09:38 PM

Market Trends Investor, Contributor
VMIN is actively managed which in retrospect is a good thing IMO. FYI....VMIN returned almost 20% this week versus SVXY which did about 8.5%. Wonder if they (VMIN) were still getting the weekly futures off the books? The new tamer strategy as of March 7th still had plenty of beta - but wondering if it was fully implemented.

10 Mar 2018, 07:32 AM

v1Trader
VMIN update from the source: April 25th is the expected date for VMIN to change from a weeklies short vol fund to some manner of mostly weighted 2-6 month futures. As you state, VMIN is actively managed, and they say that they may hold short positions with shorter or longer durations depending on market circumstances. They do suggest that they will always (likely) hold SHORT positions, as opposed to XIVH which currently is behaving as a LONG vol fund. And it will still have symbol VMIN, but the name will drop "Weekly" changing from "Short VIX Weekly Futures Strategy" to "Short VIX Futures Strategy".

10 Mar 2018, 09:06 AM

Market Trends Investor, Contributor
Do you have a link (from Rex Shares) stating the later date (april 25) for implementation of their using 2 to 6 months futures instead of weeklies? They said earlier March 7th it would commence.

11 Mar 2018, 08:08 AM

v1Trader
Here's the link:

http://bit.ly/2GkmXc8

Part I right at the top.

11 Mar 2018, 02:07 PM

Market Trends Investor, Contributor
v1Trader. That's just the name change to better reflect what the product does. I think it still phased out the VIX weeklies. It's actively managed so I suppose we really can't nail down what they are doing.
..."Prior to April 25, 2018, however, the Fund may not be invested in a manner consistent with its current 80% investment policy at all times in response to abnormal
circumstances in the market. Specifically, beginning on March 7, 2018, the Fund anticipates that it may invest in certain VIX Futures Contracts with greater than one month to expiration,
and the Fund may therefore have exposure to VIX Futures Contracts with a weighted average time that is greater than, and which could be substantially greater than, one month. Information about the Fund's holdings can be found at https://www.volmaxx.com....."

11 Mar 2018, 02:31 PM

v1Trader
Agree, they're actively managing it and not tying themselves down very tightly, but at least it sounds like it'll remain a short vol fund, and not some sort of XIVH-style hybrid fund.

11 Mar 2018, 10:48 PM

iconstockkilledme
VMIN seems like a good place to park some risk capital. Even with the high fees they have a shot at averaging 30-40% a year.

10 Mar 2018, 12:29 PM

itscalledcommonsense
LMAO. 30-40% a year? Is that it?

I will take the under. Way under.

11 Mar 2018, 05:08 PM

iconstockkilledme

itscalledcommonsense
So, XIV can't make 20% CAGR but VMIN, which is moving to months 2-6 is going to make 30%?

Furthermore, a product that has a 30% CAGR and a daily leverage reset that depends on market makers taking the other side of it's daily transactions will eventually grow so large that it will blow up. Haven't you been paying attention?

Will there be periods of time that its CAGR will be over 30%? Definitely. Will it's CAGR for its existence be over 30%? No.

12 Mar 2018, 10:52 AM

iconstockkilledme
Not for its whole existence perhaps but for a significant period (10 years, 15 years).

12 Mar 2018, 12:50 PM

itscalledcommonsense
Yeah, maybe, although I think it is doubtful, esp. from current prices. Unfortunately you don't know the period ex ante.

12 Mar 2018, 02:44 PM

iconstockkilledme
Fair point.

12 Mar 2018, 09:17 PM

Market Trends Investor, Contributor
Rex Shares says the transistion will be complete by March 21, 2018. See last paragraph before Disclaimer.

http://bit.ly/2GhCp8J

12 Mar 2018, 09:55 AM