

'The Revolution Will Not Be Televised,' Gil Scott-Heron 'The Market Bottom Will Not Be TeleVIXed,' Dennis Davitt

When Gil Scott-Heron wrote that the revolution will not be televised, he meant that the event or experience which will result in a sea change or culture shift, is impossible to capture on film. The moment happened, but it is intangible. Traders will in hindsight point to previous explosions in the VIX as the sign of a capitulation in the equity market and as an indicator to buy the market. This time it will be different, and I hope this short note can shed some light on why there will not be a VIX spike to capture on film.

Supply and demand are the underlying reasons for price action in any market. In the case of the options/volatility market it is important to know not only what the supply demand dynamic is, but also who are the players driving it and why. I feel that investors being short volatility positions has NEVER been the reason for spikes in the VIX, but more to do with the leverage that some short volatility investors had in their portfolios. The most often referred to incident in VIX spikes was Volmageddon in February of 2018, which was driven by the worst type of short volatility leverage. The leverage was massive and 90% of the investors had no idea they held so much risk in their portfolios. The result of this was overnight clearing house liquidation. This sort of liquidation is commonly referred to as "the tap on the shoulder" that resulted in many a legendary short volatility blow-ups, causing a VIX spike and corresponding market capitulation in the underlying equity market.

Because of so many "taps on the shoulders" over the last three years, the AUM in the short volatility community has been decimated, steam rolled, the Bulls post Jordan.... Just look at the news this week of the Allianz PM's hiding in from the SEC in bathrooms! The leverage in Short Condor, short exotic variance, and Volatility Risk Premium (VRP) have all experienced outsized losses leading to redemptions. The VIX above 30% is still rarefied air... And yet, if it not coming from the short volatility funds, then why the elevated level? Primarily it has to do with the realized volatility of the underlying market. The realized volatility of the underlying SP 500 is above 27% and with implied volatility of options trading between 24%-27% (this translates to VIX at 30%). It is profitable to own options with such an active and volatile cash market. This is the opposite of 2017 where the VIX was at 10% and the realized was 7%.

The elevated options pricing is not limited to the front month options; going out 18 months we see elevated option prices which may foretell an increase in the volatility of the equity market through this time next year. So can the VIX go higher, absolutely, but I do not foresee the closing of levered short options positions causing a traditional spike like it has in the past. I do see an options market that will trade in line with a more volatile market, however this time it will not provide an image, The Bottom will not be TeleVIXed.

DISCLAIMER:

The information contained herein, including any attachments, is provided by Millbank Dartmoor Portsmouth ("MDP") on a confidential basis to the intended recipient solely for informational purposes. Any dissemination, re-distribution or other use of this message by any recipient is unauthorized. This document should not be the basis of an investment decision. There are substantial risks to investing in this strategy (the "Strategy"), which should be considered speculative and may only be appropriate for part of an investor's portfolio. The information in this document has been obtained from sources believed to be reliable, but MDP does not represent that it is accurate or complete.

Performance: MDP reports unaudited performance NET of fees (0.40%) and expenses, which reflects the reinvestment of dividends, if applicable. Past performance of certain months may have been achieved under extraordinary circumstances and may be difficult to calculate. Therefore, past performance is not indicative of future results and should not be the basis of any investment decision. The composition and volatility of the indices referenced herein are materially different from the Strategy. There is no guarantee that the Strategy's performance will meet or exceed any index. Benchmark performance is provided for purposes of comparison and, unlike the Strategy does not reflect the deduction of fees, brokerage commissions, taxes, or other expenses of investing.

Investment Risks: Investing in the Strategy is speculative and involves varying degrees of risk, including substantial degrees of risk in some cases. The Strategy may be leveraged, may engage in other speculative investment practices that may increase the risk of investment loss, and the Strategy's performance may be volatile. The use of a single advisor could mean lack of diversification and, consequently, higher risk. The Strategy may have varying liquidity provisions and limitations.

The S&P 500 index (SPTR) measures the performance of the large-cap segment of the market. Considered to be a proxy of the U.S. equity market, the index is composed of 500 constituent companies

Futures Trading: MDP may engage in futures trading. Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The low margins normally required in futures trading permit a very high degree of leverage. As a result, a relatively small movement in the price of a futures contract may result in a profit or loss which is high in proportion to the amount of funds placed as margin and may result in unquantifiable further loss exceeding any margin deposited. The "gearing" or "leverage" often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement in the value of an underlying asset can lead to a proportionately much larger movement in the value of MDP's investment, and this can work against the MDP as well as for it. Futures transactions may also create a contingent liability for clients of MDP.

Forward-Looking Statements: Statements made in this release include forward-looking statements. These statements, including those relating to future financial expectations, involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. No assurance can be given that any account will meet its investment objectives or avoid losses.

This material is not intended to represent the rendering of accounting, tax, legal or regulatory advice as a change in the facts or circumstances of any transaction could materially affect the accounting, tax, legal or regulatory treatment for that transaction. Potential investors should consult, and must rely on their own professional tax, legal and investment advisors as to matters concerning the Strategy and their investments in the Strategy. Prospective investors should inform themselves as to: (1) the legal requirements within their own jurisdictions for the purchase, holding or disposal of investments; (2) and applicable foreign exchange restrictions; and (3) any income and other taxes which may apply to their purchase, holding and disposal of investments or payments in respect of the investments of Strategy.

CONTACT US:

Millbank Dartmoor Portsmouth
22 Pack Square, Suite 401
Asheville, NC , 28801
(828) 499-7223/7224
www.mdppv.com

