



The Volatility Watch

A Weekly Commentary On The Volatility Marketplace
Free weekly delivery

For Week Ending 10/8/2021:

The S&P 500 regained some composure last week and rallied back to just 3% below all-time highs, having briefly threatened a 5% correction at the worst. This is hardly a crisis and usually the recipe for "transition zone" (i.e., 18-20) VIX levels that we saw last week. VIX futures contango (an upward-sloping curve) steepened in the equity rally and has persisted throughout this correction, indicating little sign of panic from hedging markets though overall levels are somewhat elevated with most of the curve trading over 20. For now, the VIX is not indicating to us a need for crisis protection but at these levels things can change quickly.

VIX Futures Historical Prices

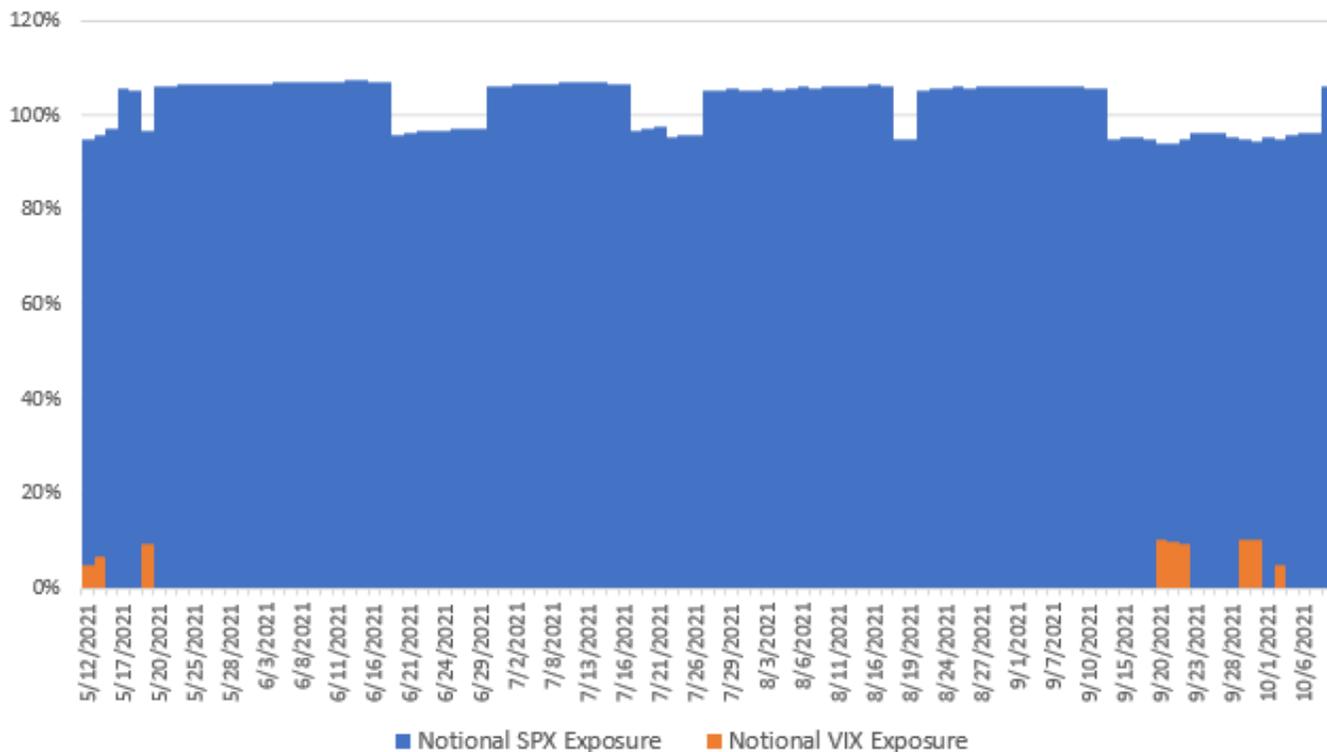
vixcentral.com



The Tactical Beta strategy dropped another small hedge last week and went back to 105% long S&P. As is usually the case during mild choppy corrections, the hedge has represented a cost to the strategy during this episode. As measured by the difference in total return vs the S&P 500, the cost of the Tactical Beta strategy's risk management has now amounted to 4.74% in 2021, typical of the strategy in rising markets and comparing favorably to other risk managed approaches such as the 8.66% cost generated this year in JP Morgan Hedged Equity (JHEQX).

Tactical Beta Exposure

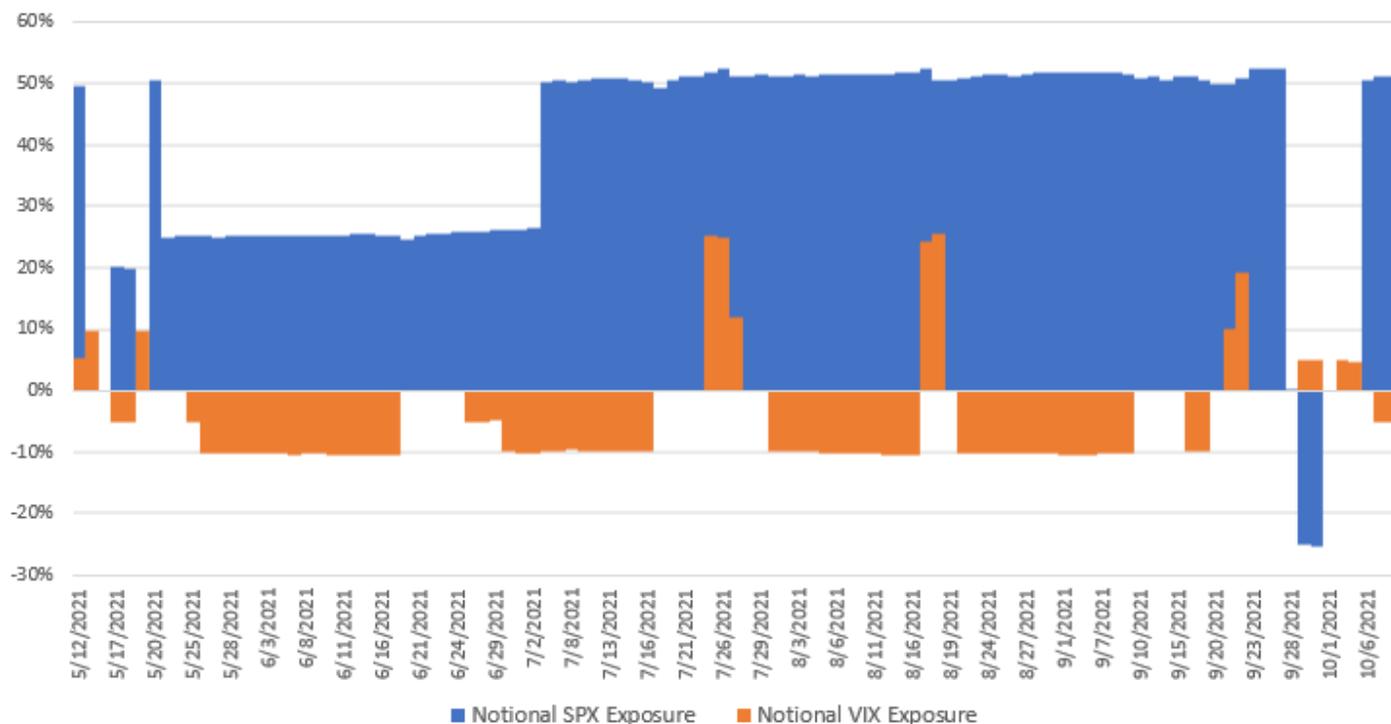
Sample Account, Trailing 100 Day as of 10/08/21



The Alpha Seeker strategy moved from negative to positive beta last week with a combination S&P and VIX exposures. Similar to the Tactical Beta strategy, transition periods have typically meant a drawdown for the Alpha Seeker strategy as it's neither in "offense" or "defense" until a definitive market trend asserts itself. As counterintuitive as it may be, it is by giving up this middle ground that the strategy has been able to generate returns both in a true crisis like March of 2020 as well as in quiet bull markets like 2017.

Alpha Seeker Exposure

Sample Account Trailing 100 Day as of 10/08/21



Disclosure

Investing involves risk, including the possible loss of principal.

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**The Sample Account for the Tactical Beta Strategy (f/k/a U.S. Equity Smart Index strategy) is for the longest tenured account managed by Mike and Matt Thompson from November 1, 2016 through October 8, 2021. **The Sample Account for the Alpha Seeker Strategy consists of three accounts managed by Mike and Matt Thompson for portions of the time period between October 1, 2011 through October 8, 2021 to form one continuous Sample Account. Currently, at Thompson Capital Management LLC a majority-owned affiliate of LHA, the Thompsons manage a composite of separately managed accounts for each strategy which has used substantially the same investment objectives, policies, and principles as while the Thompsons were at prior investment management firms. Mike and Matt Thompson, as employees of LHA, will implement the strategies for LHA clients.*

VIX is the ticker symbol for the Chicago Board Options Exchange (Cboe) Volatility Index, which shows the market's expectation of 30-day volatility. References to the S&P 500®, the S&P, and to the market generally are to the Standard & Poor's 500® Index (SPX) which is the market capitalization-weighted index of 500 leading companies in leading industries of the U.S. economy that does not include re-investment of dividends in the calculation of the index total return.