



## **Performance Report – January 2018**

Past performance, monthly reviews and investment cases are provided for the following:

- Volatility Strategy
- Conservative Volatility Strategy
- Traditional Asset Strategy
- Comprehensive Portfolio Strategy



## January 2018

In January, the S&P 500 notched a 5.62% gain on a fantastic performance following a solid December. Simply stating the monthly returns of the S&P 500 would ignore the selling action we saw, as the S&P experienced a 1.77% drawdown, for the first time in a while, to close out the month. The “stories” of the month were very similar to previous months: politics, politics, and politics. The government shutdown spooked many investors, but ended up having minimal effect on market outcomes. Markets plunged (>1%) the day of the State of the Union, suggesting that many expected a divisive speech; however, many came away content with the President’s general sentiment regarding the broader economy. Volatility returned to markets in an immediate fashion; the VIX climbed from 9.88 (Jan 11<sup>th</sup>) to 14.79 (Jan 30<sup>th</sup>) over the course of the month, causing XIV to give up its monthly gains and more. XIV closed the month down 6.61%, while ZIV closed the month down 1.33%. The combination of sustained, higher volatility and a strong S&P 500 is uncommon, but not unparalleled. Many have speculated that we are seeing the beginning of sustained volatility, something unseen since late 2016. We are not ready to conclude that we’ve officially left the “extreme low volatility environment” we’ve experienced for months on end until we see volatility remain in markets for a period longer than two weeks.

A development tied to volatility trading unraveled this month, as XIV began to trade above its indicative value (IV). Throughout the month, XIV began to trade at as much as a 4% premium to IV. That “gap” has been closed slightly, as XIV is currently trading at a ~2.5% premium to IV. For us, this means that if we are in a short volatility trade because all risk metrics line up, we could still end up eating that ~2.5% loss because of the premium built in. That premium must be “removed” at some point (it is removed as the issuer issues more shares of XIV). Depending on the premium to IV, we could end up switching to SVXY during the next Volatility Strategy short volatility trade.

Following a strong December, each of our strategies continued to generate positive returns and reach new all-time highs. The Volatility Strategy returned 2%, as it was able to generate a sell signal for 1/11, which was XIV’s peak close. The strategy’s signals were beginning to sense weakness in the term structure, leading to the sell signal. XIV ended the month down 6.61%. The Conservative Volatility Strategy ended January up 2.03%, despite the fact that ZIV ended the month down. The Traditional Asset Strategy notched a 2.31% gain this month, trailing the S&P 500 (5.62%). Our Comprehensive Portfolio generated a return of 2.17% and continues to massively beat the S&P 500 during live trading.

Going forward, we aim to share a performance report with all newsletter subscribers each month. The report will document live returns and will include a short commentary section discussing markets and our strategies. We will include future plans, goals, market forecasts, and any other relevant information in the monthly commentary section.

Past performance is not necessarily indicative of future results and all investments involve risk. All investors should carefully consider the potential risks of a strategy and their own investment objectives before investing in any strategy. No representation is being made that any account will or is likely to achieve results similar to those shown. The information and analysis on this site is provided for informational purposes only. Nothing herein should be interpreted as personalized investment advice. Under no circumstances does this information represent a recommendation to buy, sell or hold any security. None of the information on this site is guaranteed to be correct, and anything written here should be subject to independent verification. You, and you alone, are solely responsible for any investment decisions you make.



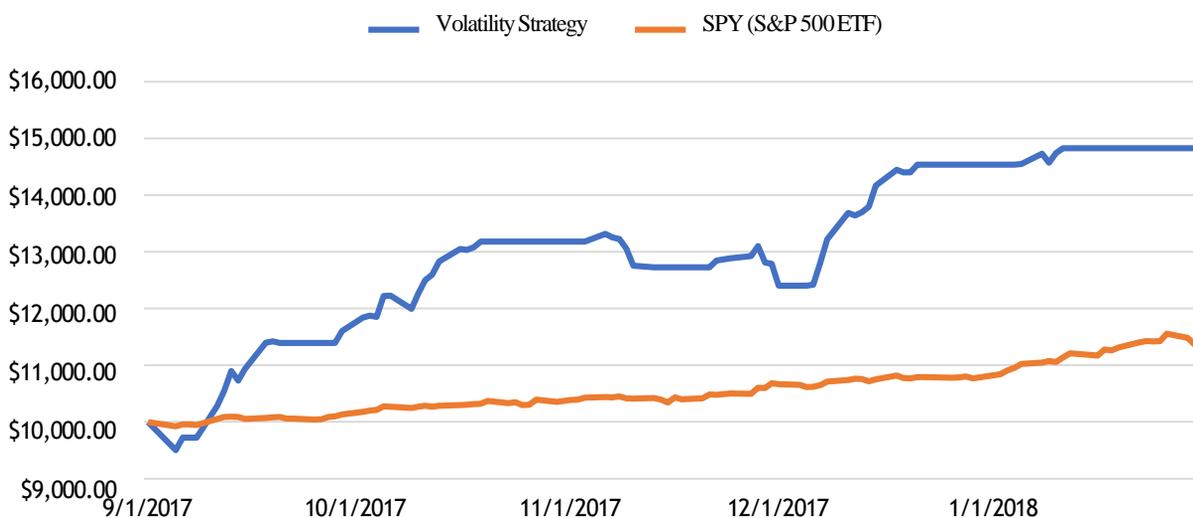
## Volatility Strategy

Live performance since September 2017

The Volatility Strategy trades the ETNs/ETFs XIV and VXX. XIV seeks to track the inverse of the performance of a synthetic 30 day weighted VIX future. VXX, on the other hand, seeks to track the performance of a synthetic 30 day weighted VIX future. These products are volatile, so a forward-looking strategy must focus on risk management above all else. Volatility is more predictable than day-to-day returns of the S&P 500 and this trend will, in all likelihood, continue.

The strategy aims to beat benchmark returns over a complete market cycle. While this is attainable in the volatility industry, maintaining these returns while reducing risk is the challenge. The strategy uses proprietary volatility signals to determine ideal market conditions for long volatility/short volatility trades. These signals are designed to adapt to any market condition, as we strive for performance over a long time horizon.

### Volatility Strategy – Live Performance



### Live Performance Report - Volatility Strategy

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	16.08%	13.60%	-3.00%	13.68%	45.42%
2018	2.00%												2.00%

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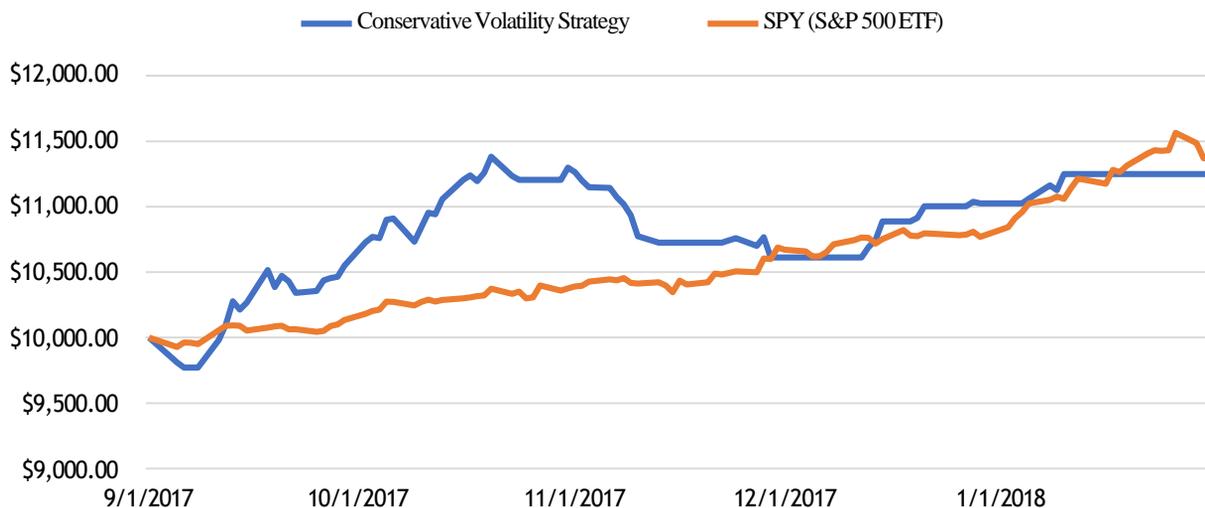
## Conservative Volatility Strategy

Live performance since September 2017

The Conservative Volatility Strategy trades the ETNs/ETFs ZIV and VXZ. ZIV seeks to track the inverse of the performance of a synthetic 4th-7th month weighted VIX future. VXZ, on the other hand, seeks to track the performance of a synthetic 4th-7th month weighted VIX future. These products are less volatile than XIV and VXX, but still volatile, so a forward-looking strategy must focus on performance and risk management.

Volatility is more predictable than day-to-day returns of the S&P 500 and this trend will, in all likelihood, continue. The strategy aims to beat benchmark returns over a complete market cycle. While this is attainable in the volatility industry, maintaining these returns while reducing risk is the challenge. Our strategy uses volatility signals to determine ideal market conditions for long volatility/short volatility trades. These signals are designed to adapt to any market condition, as we strive for performance over a long time horizon.

### Conservative Volatility Strategy – Live Performance



#### Live Performance Report - Conservative Volatility Strategy

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	5.51%	7.08%	-6.06%	3.89%	10.26%
2018	2.03%												2.03%

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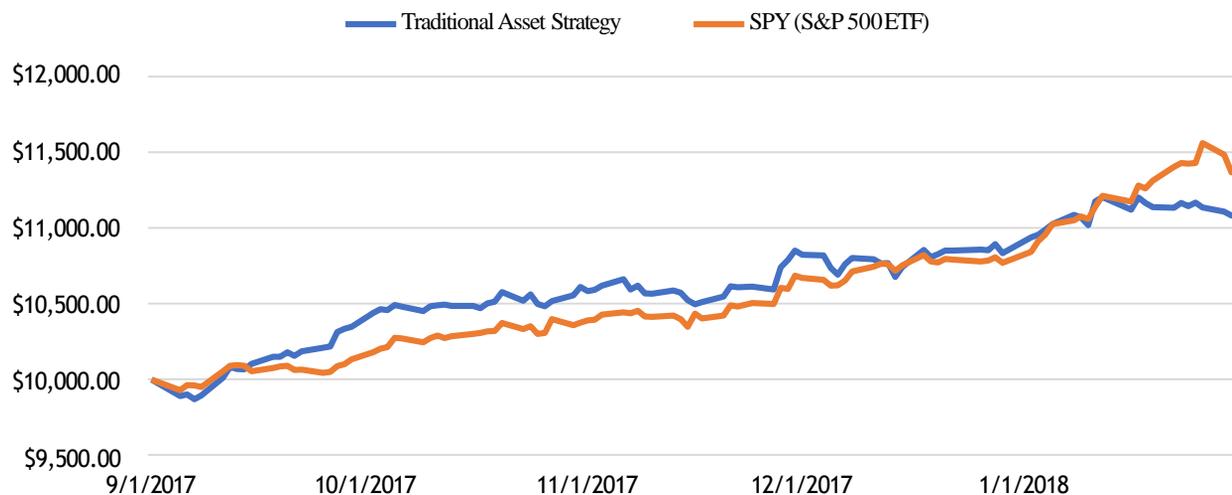
## Traditional Asset Strategy

Live performance since September 2017

The Traditional Asset Strategy trades the ETNs/ETFs MDY, IEF, and IAU. MDY seeks to track the performance of the S&P Midcap 400. IEF seeks to track the returns of 7-10 year US Treasury Bonds. IAU aims to reflect the returns of the price of gold. These benchmarks can be purchased interchangeably to enhance returns while trading traditional assets.

Volatility is more predictable than day-to-day returns of the S&P 500 and this trend will, in all likelihood, continue. Having said that, there is a strong correlation between equities, bonds, gold, and volatility. Because of this, the Traditional Asset Strategy uses volatility signals to determine ideal market conditions for long equity, long gold, and long bond trades. This strategy aims to beat benchmark returns over a complete market cycle. These signals are designed to adapt to any market condition, as we strive for performance over a long time horizon.

### Traditional Asset Strategy - Live Performance



#### Live Performance Report - Traditional Asset Strategy

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	3.48%	2.55%	2.26%	-0.14%	8.36%
2018	2.31%												2.31%

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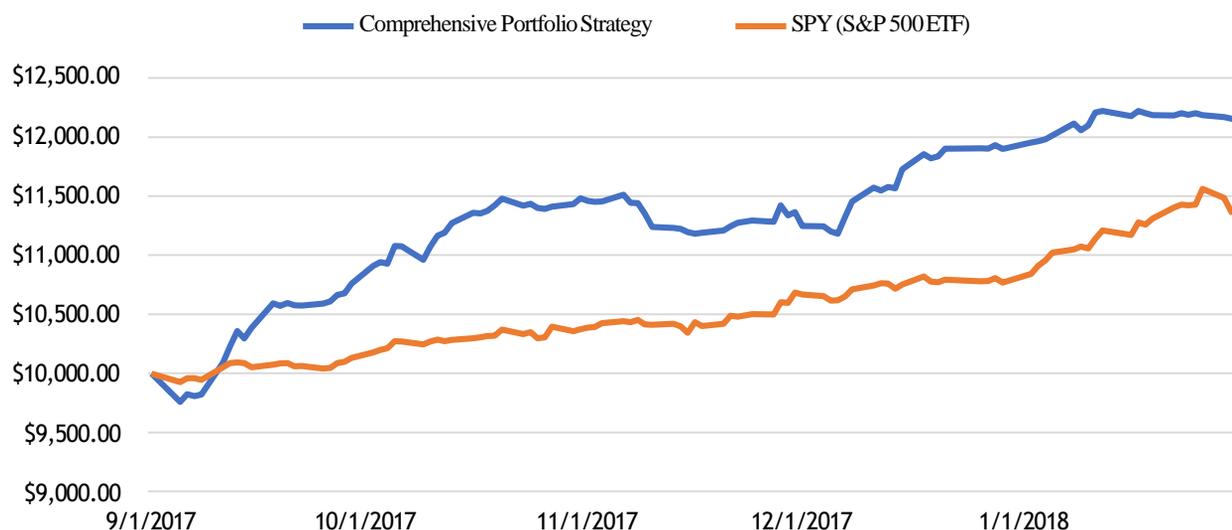
## Comprehensive Portfolio Strategy

Live performance since September 2017

The Comprehensive Portfolio Strategy combines the Volatility, Traditional Asset, and Conservative Volatility strategies into a single, diversified portfolio. The weightings for each strategy are as follows: 50% allocated to the Traditional Asset Strategy, 30% allocated to the Volatility Strategy, and 20% allocated to the Conservative Volatility Strategy.

The Comprehensive Portfolio Strategy aims to reduce risk by diversifying across strategies. In addition, the strategy aims to beat benchmark returns over a complete market cycle.

### Comprehensive Portfolio Strategy – Live Performance



#### Live Performance Report - Comprehensive Portfolio Strategy

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	7.61%	6.70%	-1.02%	4.69%	18.98%
2018	2.17%												2.17%

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