STARBOARD
ASSET MANAGEMENT

Risk Management for nagivating your future.

Starboard Weekly Report Ending October 20, 2017
Chart of the Week

This weekly point and figure price chart of the VIX Volatility Index (VIX) is from StockCharts.com. The internet explanation of how the VIX works is as follows:
The VIX Index is an up-to-the-minute market estimate of implied (expected) volatility that is calculated by using the midpoint of real-time S&P 500® Index (SPX) option bid/ask quotes. More specifically, the VIX Index is intended to provide an instantaneous measure of how much the market thinks the S&P 500 Index will fluctuate in the 30 days from the time of each tick of the VIX Index.

TECHNICAL

The above Volatility Index trades in a totally inverse manner to the Standard & Poor's Index. At the bottom of the great recession in March of 09, green shoots was a favored expression regarding a new start for the markets and the economy. This week's point & figure chart is showing some green shoots in the form of "X's" along with an actual weekly buy signal in the volatility index. In addition, the chart on the bottom right corner is showing a bottom in July (column of O's starting with 7) followed by being tested twice with two "O" columns (ending with the A column). These are a welcome sign for our bearish market position because of the potential reversal of this uncorrelated index. The VIX index is a very explosive indicator of near term market direction. The long term price swings are very apparent on the monthly VIX chart (see email attachment). That chart is also showing green shoots; however, it is not on a buy signal. The short positions in the VIX are at all-time highs due to selling the VIX futures and buying the S&P futures as a pare trade. This transaction is a favorite activity of the institutional prop desk. The covering of these VIX futures short positions will be the reason for future volatility.

FUNDAMENTAL

These VIX futures trades, like the one mentioned above, are driving the entire US stock market rally. Since we now have more indexes than traded common stocks, many institutional investors are dealing in the futures market where they can trade indexes through futures derivative contracts. The Quantitative Easing (QE) has caused suppression of volatility as FED excess reserves gravitated into the advancing stock, bond and futures markets. Now that Quantitative Tightening (QT) is upon us, indexes should decline and force higher volatility prices for the VIX index.

ASIDE

"Never think that lack of variability is stability. Don't confuse lack of volatility with stability, ever." Nassim Nicholas Taleb - Lebanese-American essayist, scholar, statistician, former trader and risk analyst whose work focuses on problems of randomness, probability and uncertainty.

Successful Investing is all about doing the opposite of any market excesses and the VIX's recovery is giving a bear market reversal "green shoots" suggesting the end of Central Bank liquidity extremes is closer than we think.