



Turn Volatility to  
Your Advantage

## Buy Pitch

Matt Morgan, William Piazza, Austin Thomas

Management Team

March 18th, 2020



**SIMM**  
STUDENTS IN MONEY MANAGEMENT

## Recommendation

---

*“We would like to initiate a 6.28% position in TVIX”*

Recommendation	
<b>Total Shares</b>	<b>27</b>
TD #1 (Unrestricted) Shared	9
TD #2 (Endowment) Shared	18
Market Price	\$809.42
Cost Basis	\$21,854.34
% of Portfolio	6.42%

# Table of Contents

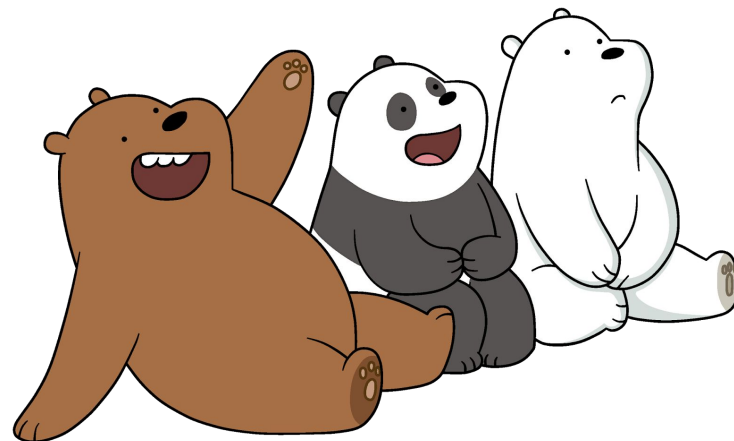
---

Section I: Vocabulary

Section II: Overview

Section III. Investment Thesis

Section IV. Risks and Catalyst



## Section I. Vocabulary

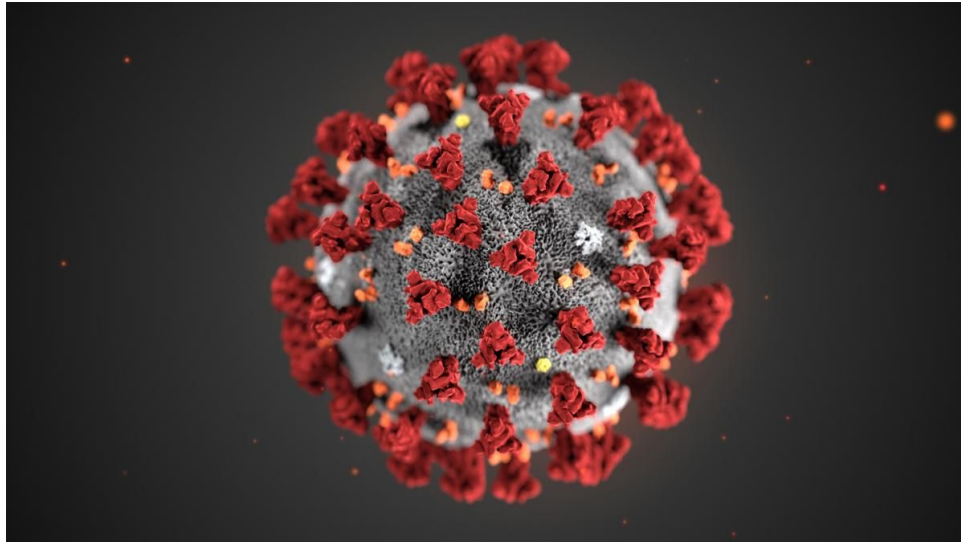
## What Is a Pandemic?

A pandemic is a disease epidemic that has spread across a large region, for instance multiple continents, or worldwide.

THE CORONAVIRUS CRISIS

## Coronavirus: COVID-19 Is Now Officially A Pandemic, WHO Says

March 11, 2020 · 12:30 PM ET



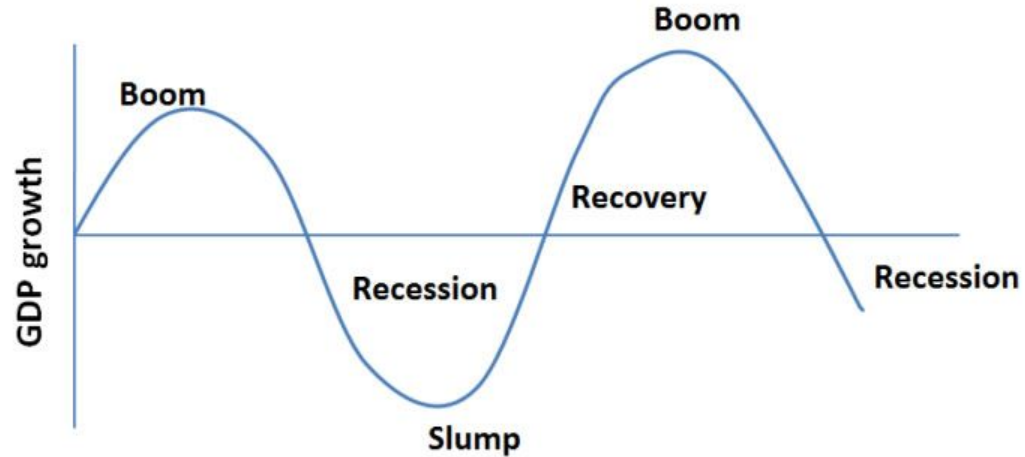
## What Is a Bear Market?

A bear market is a condition in which securities prices fall 20% or more from recent highs amid widespread pessimism and negative investor sentiment. Typically, bear markets are associated with declines in an overall market or index like the S&P 500, but individual securities or commodities can be considered to be in a bear market if they experience a decline of 20% or more over a sustained period of time—typically two months or more.



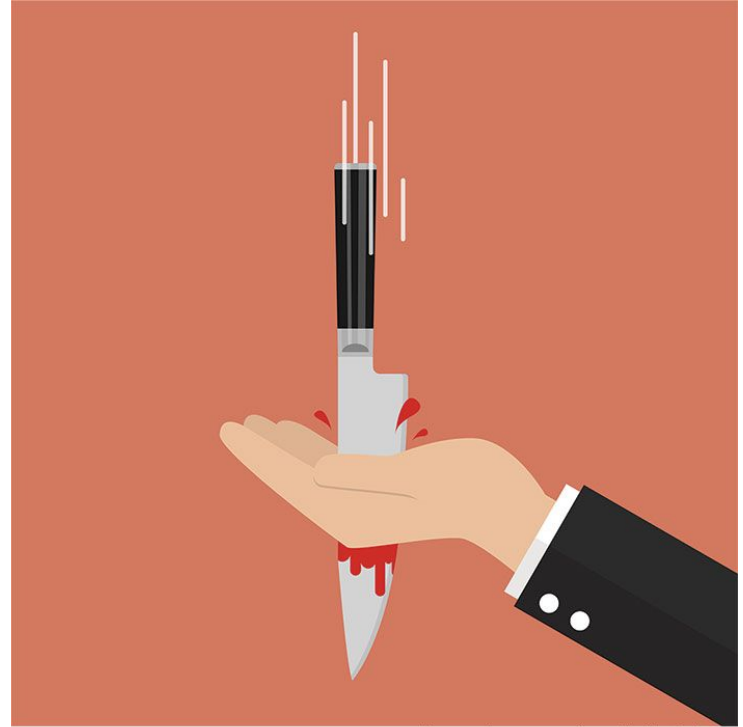
## What is a Recession?

A recession is a macroeconomic term that refers to a significant decline in general economic activity in a designated region. It had been typically recognized as two consecutive quarters of economic decline, as reflected by GDP in conjunction with monthly indicators like a rise in unemployment.



## What is a Falling Knife?

A falling knife is a colloquial term for a rapid drop in the price or value of a security. The term is commonly used in phrases like, "don't try to catch a falling knife," which can be translated to mean, "wait for the price to bottom out before buying it." A falling knife can quickly rebound - in what's known as a whipsaw—or the security may lose all of its value, as in the case of a bankruptcy.



Source: siraanamwong/www.Shutterstock.com



## What is Volatility?

Volatility is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security. Volatility is often measured as either the standard deviation or variance between returns from that same security or market index.



## What Is the CBOE Volatility Index (VIX)?

Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments. It is also known by other names like "Fear Gauge" or "Fear Index." Investors, research analysts and portfolio managers look to VIX values as a way to measure market risk, fear and stress before they take investment decisions.



## Section II. Overview



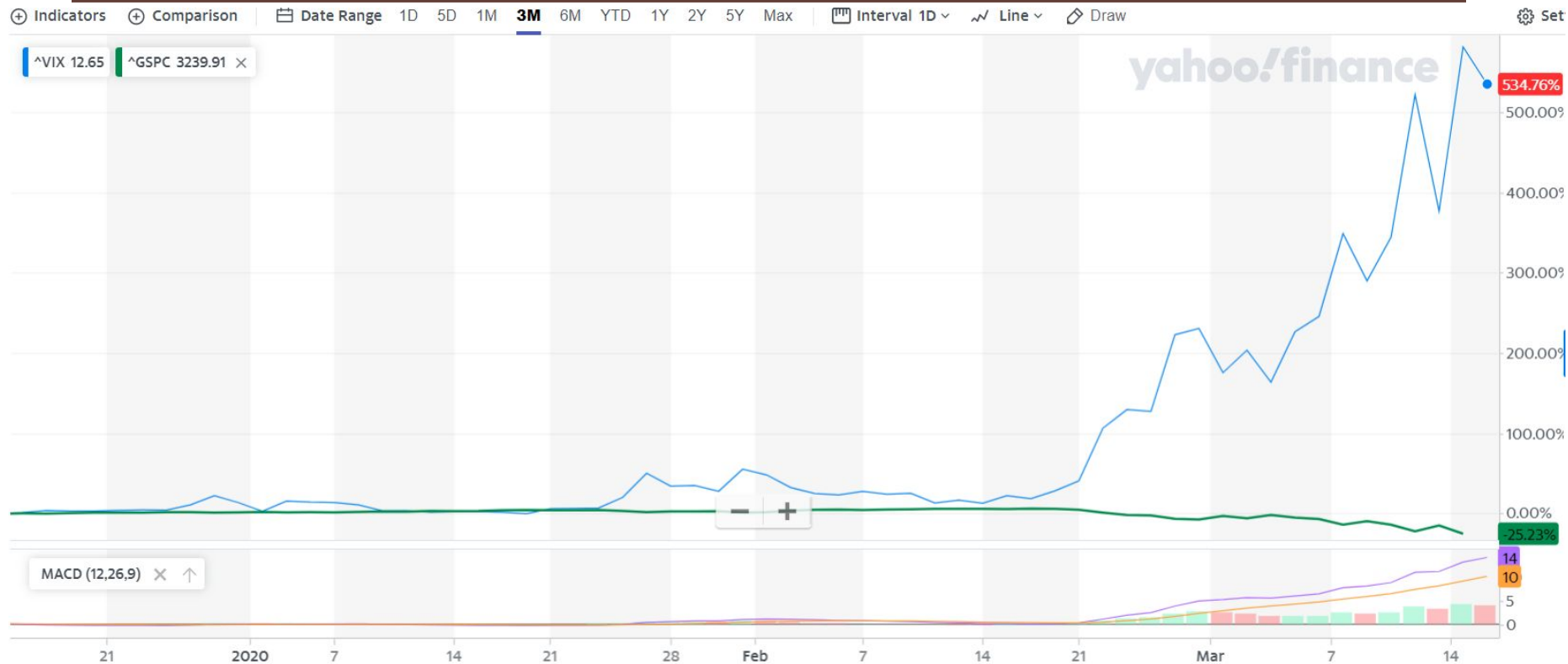
# Overview

## Indices Price Chart



# Overview

## ^VIX Price Chart



# Overview

## TVIX Price Chart



# Overview

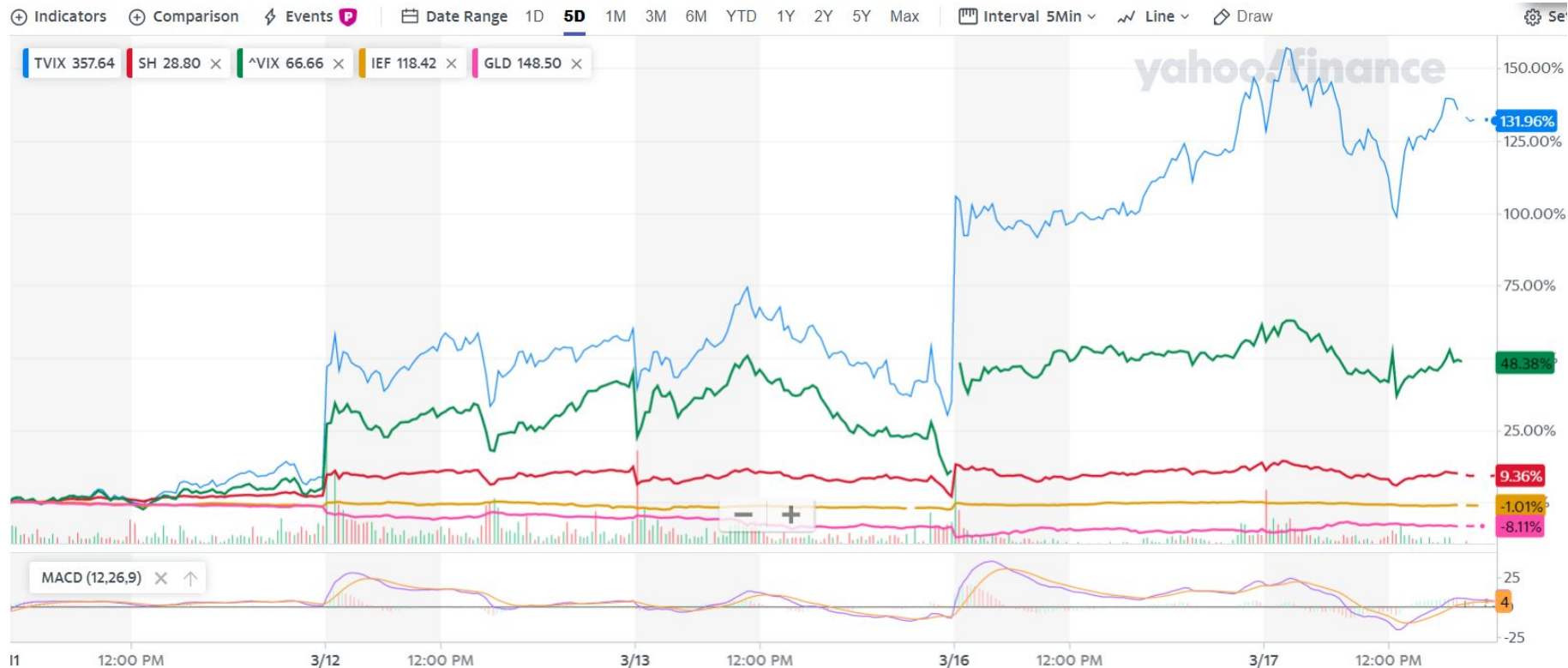
## TVIX Price Chart





# Overview

## TVIX Price Chart





# Oil & Global Growth

---

## **Brent Crude \$27.13**

- OPEC+ primarily with lower quality

## **West Texas Intermediate \$22.74**

- Majority in Permian basin (USA)

## **Traded through oil contracts - Commodity**

- It establishes today's price for tomorrow's delivery

# Oil & Global Growth

---

- Saudi Arabia doubling down
  - 12.3M BPD “for the next few months”
  - Russia 7.25M BPD
- Demand shock from COVID-19
- Affected by global growth

# Oil Waves Goodbye

CL - Crude Oil WTI - Monthly OHLC Chart



# 2008 Resemblance ??

**FRED** 

— Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma



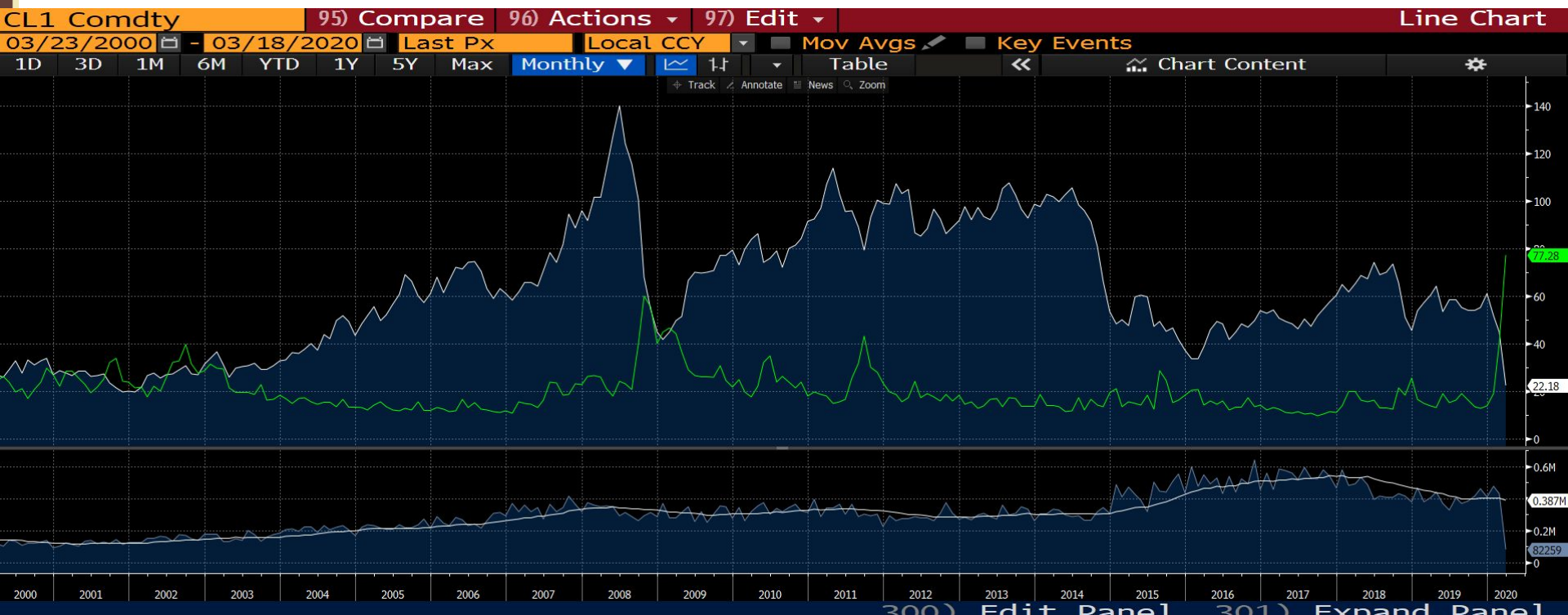
Source: US. Energy Information Administration

Shaded areas indicate US recessions - 2014 [research.stlouisfed.org](http://research.stlouisfed.org)



**SIMM**  
STUDENTS IN MONEY MANAGEMENT

# Vix vs Oil (WTI)



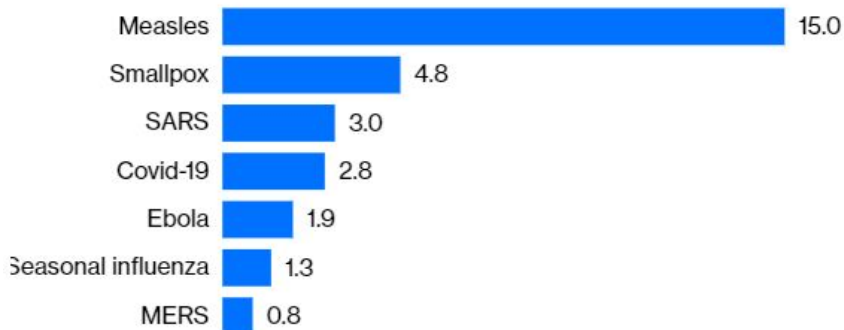
## Section III. Investment Thesis



# Global Pandemic

## How Contagious Is That Disease?

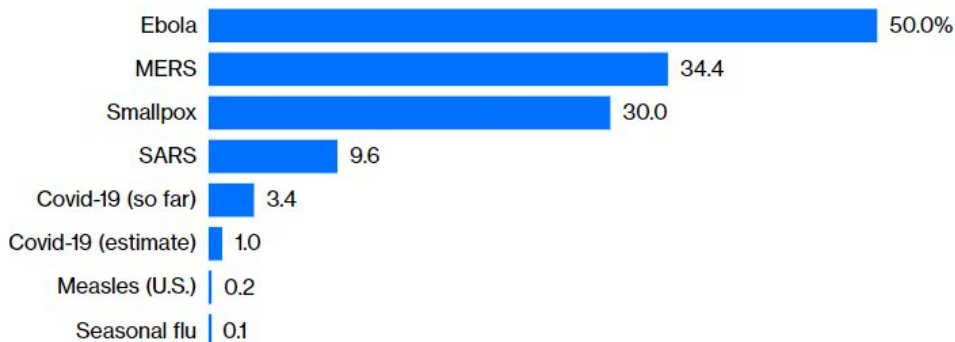
Approximate reproduction number ( $R_0$ )



Sources: World Health Organization, Centers for Disease Control, King Saud University, Natu

## How Deadly Is That Disease?

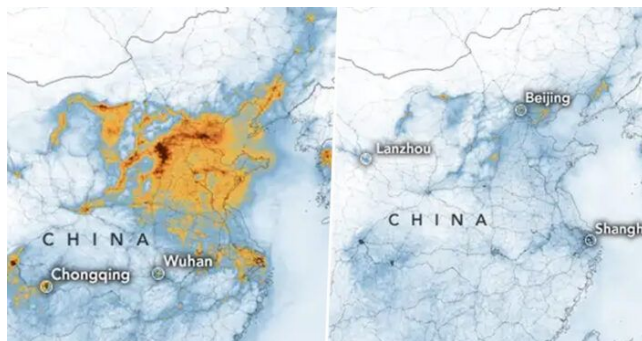
Approximate case-fatality rate



Sources: World Health Organization, Centers for Disease Control, MRC Centre for Global Infectious Disease Analysis

# Global Pandemic

	Country	Total cases	Recovered	Deaths
1	China	81,058	68,798	3,230
2	Italy	27,980	2,749	2,158
3	Iran	16,169	5,389	988
4	Spain	11,309	1,028	509
5	Germany	8,604	67	23
6	Korea, South	8,320	1,407	81
7	France	6,664	12	148
8	US	5,702	17	94
9	Switzerland	2,700	4	27
10	United Kingdom	1,960	53	56

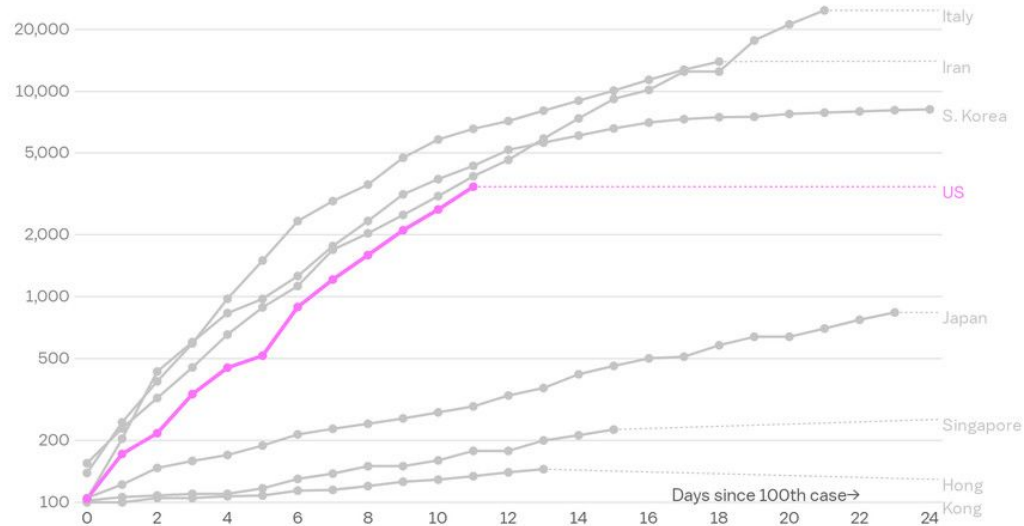


## Italy Shuts Down All Stores Except Supermarkets And Pharmacies, Escalating Coronavirus Lockdown





**Number of confirmed coronavirus cases, by days since 100th case**



Source: Vox analysis of Center for Systems Science and Engineering at Johns Hopkins University data, through March 15; **Vox** Financial Times

## Headlines

---

**Las Vegas Strip resorts closing as a result of coronavirus: MGM, Wynn, Encore**

**Coronavirus school closings: 33 states, Los Angeles' LAUSD, New York City shut all K-12 schools**

**Airlines Slash Flights, Freeze Hiring as Virus Cuts Travel**

**Federal Reserve Cuts Interest Rates To Zero For First Time Since Financial Crisis**

**Kentucky Derby, MLB and other sports postponed amid coronavirus outbreak**

*NBA, NHL and Boston marathon have already postponed events.*



## Section IV. Risks and Catalysts

# Risks and Catalysts

## Risks

- High Volatility
- Market May Rebound
- Social Distancing May Control Spread of Virus and Allow Re-Openings

It's Possible We Missed Our Opportunity for Big Gains in the VIX, and Now Could be the Time to Buy Long into Equities

## Catalysts

- Continuing Virus Fears
- Businesses Closing, GDP to take large hit
- Cases of COVID-19 May Continue to Grow Exponentially
- Companies Likely to Miss on Earnings, Could Drive Prices Lower

Continued Spread Could Cause Even More Closings and Ravage the Economy for Months to Come

## Section V. Valuation

## Recommendation

---

*“We would like to initiate a 6.28% position in TVIX”*

Recommendation	
<b>Total Shares</b>	<b>27</b>
TD #1 (Unrestricted) Shared	9
TD #2 (Endowment) Shared	18
Market Price	\$809.42
Cost Basis	\$21,854.34
% of Portfolio	6.42%