

Comments on the proposed listing of the -1x Short VIX Futures ETF, a series of VS Trust.

I have been an investment advisor for more than 15 years and have been an active user of exchange traded products based on VIX futures (“VIX ETPs”) for more than five years. I was initially interested in the application of VIX ETPs to serve as source of return with low or negative correlation to equities that could be included in a diversified portfolio to reduce equity-related drawdowns and improve overall risk-adjusted returns. I found an extensive body of research on the use of VIX ETPs and developed a systematic approach to selectively establish either long or short exposure to VIX futures. I have successfully employed a tactical approach to investing in VIX ETPs with certain clients since 2016.

I have also observed that VIX ETPs have been misused and resulted in serious losses for investors unfamiliar with their specific characteristics. The so-called “Volmageddon” incident in February 2018 was the most serious example of misuse and resulted in structural changes to three of the VIX ETPs traded at the time. XIV was terminated, SVXY was changed from -1x to -0.5x and UVXY was changed from +2x to +1.5x.

The termination of XIV and “neutering” of SVXY were detrimental to my systematic strategy as there was no longer a source of -1x exposure. It has been my observation that many market participants have been shorting VXX (+1x exposure) as a substitute for the -1x exposure that had been available through XIV and SVXY. It is my opinion that investors would be better served getting -1x exposure directly (as through the proposed ETF) rather than through the short sale of VXX.

I have known the principals of VolatilityShares for many years. They have deep knowledge of volatility trading, ETP structure and risk management. The structural changes they have incorporated into the design of the proposed -1x Short VIX Futures ETF address critical shortcomings of prior short VIX products and, as such, provide a valuable tool for advisors looking to actively diversify client portfolios, reduce equity-related drawdowns and improve risk-adjusted returns. I wholeheartedly recommend the approval of the proposed listing.