

Navigating a Historic VIX Spike with SVOL

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VOLATILITY STRIKES BACK

Two weeks ago, volatility struck back after an exceptionally long period of market calm, during which the S&P 500 Index went 356 sessions without a drop of 2% or more — the longest such streak since 2007. Table 1 provides specific details of this historic VIX move from July 31, 2024, to August 9, 2024. This spike in volatility was fueled by a combination of factors, including earnings reports, job data, ongoing recession fears, and a sell-off in the Japanese market driven by the unwinding of the Yen carry trade.

Table 1: Recent VIX Spike

Date	VIX Close	VIX% Daily Change	VIX% Cumulative Change
Wednesday, July 31, 2024	16.36		
Thursday, Aug 1, 2024	18.59	14%	14%
Friday, Aug 2, 2024	23.39	26%	43%
Monday, Aug 5, 2024 (Intraday High)	65.73	181%	302%
Monday, Aug 5, 2024	38.57	65%	136%
Tuesday, Aug 6, 2024	27.71	-28%	69%
Wednesday, Aug 7, 2024	27.85	1%	70%
Thursday, Aug 8, 2024	23.79	-15%	45%
Friday, Aug 9, 2024	20.37	-14%	25%

Source: Bloomberg

Investment strategies that short the VIX index had challenges with this surge in the VIX. Simplify’s fund in this space, the [Simplify Volatility Premium ETF \(SVOL\)](#), navigated this episode nicely. Let us dig in on SVOL’s response to this event.

HOW IS SVOL DIFFERENT FROM OTHER SHORT VIX PRODUCTS?

Investors pay a premium for protection, driving up the demand for hedging via VIX futures contracts. This results in an upward-sloping futures curve known as Contango — a condition present approximately 85% of the time. SVOL capitalizes on this by shorting VIX futures at various points along the curve, not just at the front of the curve, because each point on this curve has a distinct roll yield and volatility profile. This flexibility is paramount to SVOL’s success versus products just shorting the front of the curve.

Additionally, SVOL typically shorts between 20% and 30% of its portfolio across the VIX futures term structure, greatly limiting downside risk compared to other products with more exposure. Finally, SVOL allocates 2% to 4% of its portfolio annually to mitigate VIX spikes, utilizing strategies such as purchasing call options on the VIX or implementing equity puts or put spreads for added protection.

Table 2 provides VIX closing prices, percentage change, and cumulative percentage change from July 31, 2024 for VIX, 25% Short VIX Index, and SVOL.

Table 2: VIX vs. 25% Short VIX Index vs. SVOL

Date	VIX Close	VIX% Daily Change	VIX Cumulative Change	25% Short VIX Index Close	25% Short VIX Index % Daily Change	25% Short VIX Index % Cumulative Change	SVOL Close	SVOL % Daily Change	SVOL % Cumulative Change
Wednesday, July 31, 2024	16.36			221,291.90			22.32		
Thursday, Aug 1, 2024	18.59	14%	14%	201,982.90	-2.20%	-2.20%	22.07	-1.10%	-1.10%
Friday, Aug 2, 2024	23.39	26%	43%	153,183.80	-6.00%	-8.10%	21.32	-3.40%	-4.50%
Monday, Aug 5, 2024 (Intraday High)	65.73	181%	302%	75,650.18	-12.70%	-19.70%	19.4	-9.00%	-13.10%
Monday, Aug 5, 2024	38.57	65%	136%	88,335.38	-10.60%	-28.20%	20.05	-6.00%	-10.20%
Tuesday, Aug 6, 2024	27.71	-28%	69%	105,022.90	4.70%	-24.80%	21.02	4.80%	-5.80%
Wednesday, Aug 7, 2024	27.85	1%	70%	109,411.00	1.00%	-24.00%	21	-0.10%	-5.90%
Thursday, Aug 8, 2024	23.79	-15%	45%	118,696.40	2.10%	-22.40%	21.32	1.50%	-4.50%
Friday, Aug 9, 2024	20.37	-14%	25%	134,743.80	3.40%	-19.80%	21.94	2.90%	-1.70%

Source: Bloomberg. 25% Short VIX Index is calculated as the S&P 500 VIX Short Term Futures Inverse Daily Index x 25%.

Key observations from Table 2 are:

- Between July 31, 2024, and August 9, 2024, the VIX rose by 25%, the 25% Short VIX Index declined by 19.8%, and SVOL was down 1.7%
- From July 31, 2024, to August 5, 2024, the VIX surged 65%, the S&P 500 VIX Future Inverse Index # dropped 28.21%, and SVOL fell by 10.2%
- Despite the VIX reaching its highest intra-day level (up 308% from July 31, 2024), SVOL's drawdown was limited to 13%, demonstrating the effectiveness of its risk management techniques

The first week of August put the Simplify Volatility Premium ETF's risk management techniques to the test. Unlike a simple short VIX futures strategy, SVOL employs a more sophisticated approach. By limiting its short futures exposure to 20-30%, strategically positioning along the VIX futures curve, and utilizing VIX call options and put spreads on the S&P 500, SVOL aims to deliver more favorable total returns than merely tracking the inverse VIX index. We believe that SVOL is a better-designed short VIX strategy, offering investors an alternative source of equity income with enhanced risk management.

GLOSSARY

Option: An option is a contract that gives the buyer the right to either buy (in the case of a call option) or sell (in the case of a put option) an underlying asset at a pre-determined price ("strike") by a specific date ("expiry"). An "outright" is another name for a single option leg. A "spread" is when options are bought at one strike and an equal amount of options are sold at a different strike, all at the same expiry.

VIX Index: A real-time market index representing the market's expectations for volatility over the coming 30 days.

Important Information

Investors should carefully consider the investment objectives, risks, charges, and expenses of Exchange Traded Funds (ETFs) before investing. To obtain an ETF's prospectus containing this and other important information, please call (855) 772-8488, or visit [SimplifyETFs.com](https://simplifyETFs.com). Please read the prospectus carefully before you invest.

An investment in the fund involves risk, including possible loss of principal. For SVOL standardized performance, visit: simplify.us/etfs/svol-simplify-volatility-premium-etf

The fund is actively-managed is subject to the risk that the strategy may not produce the intended results. The fund is new and has a limited operating history to evaluate.

The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. These risks include (i) the risk that the counterparty to a derivative transaction may not fulfill its contractual obligations; (ii) risk of mispricing or improper valuation; and (iii) the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate, or index. Derivative prices are highly volatile and may fluctuate substantially during a short period of time. The use of leverage by the Fund, such as borrowing money to purchase securities or the use of options, will cause the Fund to incur additional expenses and magnify the Fund's gains or losses. VIX futures contracts can be highly volatile and the Fund may experience sudden and large losses when buying selling or holding such instruments. VIX futures are unlike traditional futures contracts not based on a tradeable asset and it is possible to lose a portion or all of an investment.

The Fund invests in ETFs (Exchange-Traded Funds) and is therefore subject to the same risks as the underlying securities in which the ETF invests as well as entails higher expenses than if invested into the underlying ETF directly.

While the option overlay is intended to improve the Fund's performance, there is no guarantee that it will do so. Utilizing an option overlay strategy involves the risk that as the buyer of a put or call option, the Fund risks losing the entire premium invested in the option if the Fund does not exercise the option. Also, securities and options traded in over-the-counter markets may trade less frequently and in limited volumes and thus exhibit more volatility and liquidity risk.

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