

DROP IN MARKETS

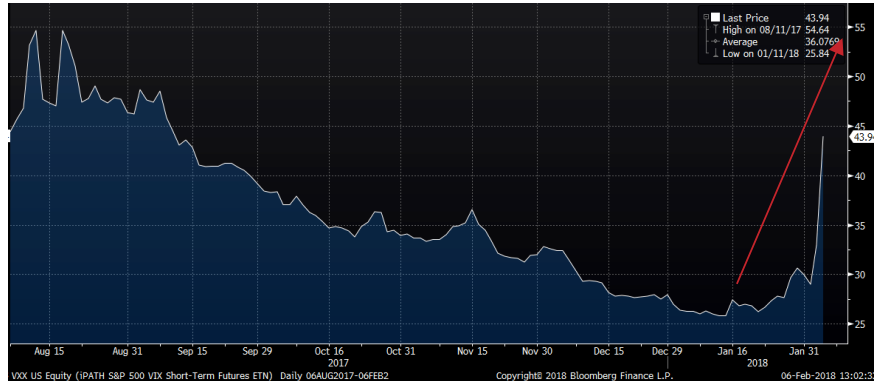


PORTFOLIOS

Todays portfolios are impacted in a positive way as the costly shorts and volatility positions built in 2017 are now returning strongly. Moreover, we recommended adding some Gold early 2018.

Our portfolios still have short and long volatility positions that are now favorably valued and posting strong gains. On the other side, the risky positions are suffering but to a much lesser extend.

- VIX Short-Term Futures are jumping. We expect to have levels back to the ones seen on the summer 2015



MARKETS

Expect some more pain as volatility shorts needs covering and traders (or machines) would need to readjust risks on portfolios. But the fundamentals will take over again in a few days and new levels (near supports) could be an opportunity to add some fallen angels.

The current drawdowns are not uncommon and since the 1980's we have seen several pullbacks. If we consider the sharp increase in markets seen in the last quarter of 2017 and during the last month, today's drop (even if sharp) presents a healthy pullback.



- The current drop is more due to concerns over inflation spikes (we spoke about it on our "Outlook 2018"), wage hikes and fears of US interest hikes (not new...). Even so, our macro view is still supportive but with careful selection on markets. Even more, we like value investments (the Core portfolio) combined with selective bets (the Satellite portfolio segment).



USE STOP-LOSSES

We would recommend to use Stop—Losses (SL) on risky positions and to monitor index levels to set a floor to any short holdings (in other words, liquidate the short for a bounce back).

We provide you hereafter with a small strategy for today's volatility situation and potential trends:

- On risky assets with positive performances, place a stop-loss at levels closed to the ones seen during the previous 3 months realized volatility spike for example. Here under the S&P 500 chart:

LOOK FOR THE RIGHT LEVEL

Use any of your favorite charting or ratio, levels, etc. to set-up a stop-loss level for your risky asset. Attention not to put the SL too closed to the current level (due to the raise in volatility)



S&P 500 Index, 3 month Realized volatility and VIX index (volatility index benchmark, white)



SELL PUTS & CASH IN SOME PREMIUMS

If the stop-loss on the risky asset is activated, sell puts at an attractive entry level you should consider (in the above S&P chart, the second green line). This will provide you with a new entry point in case of a continued downside followed by an expected rebound back).

- The sell of the put (obligation to buy the security related) should be done immediately after the stop-loss execution to take advantage of the current volatility
- For investors looking for a quick rebound, a buy limit at a lower level can also be recommended

WORK WITH THE FLOW

As mentioned in our Outlook 2018, we would » commute » with the markets. We have been over-cautious last year and had losses that today are going to be more than compensated. Ride along with the volatility and take opportunistic bets to jump again into fallen angels and promising investment looking into the future (like our Future Investment Themes segment).

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