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VIX
VIX | 16.47
Long

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Going Long the VIX

The underlying risks in the US and around the world are not being reflected in wall street's fear gage. Last week we saw regional banks slide and the VIX jump up to 28, what's more shocking, though, is that it has fallen back down to 18.5. This is roughly 1.5 points than its 3-month average, but it still feels low considering the following reasons. **The AI bust is still looming:** everyone knows the AI Bubble will eventually pop, but when? I'm giving equal probabilities for the bubble bursting in January 2026, June 2026, and January 2027, and since there is a lot of risk involved with shorting the Nasdaq, the logical decision is to go long the VIX,

The VIX is trading in reverse: Typically, the VIX and the S&P trade with an inverse relationship, but like many things right now we are seeing that relationship break down. As the S&P has been setting new highs throughout the month of October the VIX has steadily ticked up, and when regional banks stocks fell on Friday, the VIX jumped to 28. So regardless of what happens investors feel more fear? On an instinctual level this makes sense since this is the most hated rally and investors are weary, yet the market keeps rallying. Thus, going long volatility seems like a win-win.

Regional bank scare is a warning: Investors were spooked on Friday as the Tricolor-First Brands debacle started to become clearer, but rapidly change their minds and Volatility dropped back down to its pre-incident level. I see this as a proxy for investors jitteriness, meaning if there are any questionable earnings or bad news, we will see stocks fall and the VIX jump.

The Trump Factor: The longest end of the curve (213 days) is sitting at 21.7, that is ridiculously low given everything I've talked about, and I still haven't mentioned Trump. For starters, Trump is clearly engaging in market manipulation, whether it be in crypto or stocks, his rash tweets and flip floppy attitude are certainly creating buying opportunities that his family are clearly utilizing. But even without that incentivization, his policies, especially tariffs, have been unclear and inflammatory, causing governments and investors to remain fearful and twitchy.

Methodology: One route would be to buy short-term or long-term VIX tracking ETFs and this would certainly give me my desired exposure to the VIX. However, I would rather buy options on companies I am interested in and straddle the S&P effectively capturing volatility and staying relatively cheaply exposed to these underlying securities (since I believe VIX is low). Overall, in this very uncertain macro environment buying options limits my downside and lets me capture upside, all while paying less in volatility than I think I should be paying.

Target Price: While it's a little harder to give a target price since its not a stock, looking at historical levels, I think the VIX spot should be ~23.

Let me know what you think: reach out to me at michaeljhyde12@gmail.com.