

# CREDIT SUISSE AG - VELOCITYSHARES DAILY 2X VIX SHORT TERM ETN

SEPT 21, 2015

RATING:  
**BUY**

VLS SECURITIES LLC  
19 OLD KINGS HIGHWAY S  
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## Analyst Brief: TVIX is the Closest to 'Spot' on the VIX: Fear is Growing, TVIX to Follow

### Summary

The investment seeks to replicate, net of expenses, the returns of twice (2x) the daily performance of the S&P 500 VIX Short-Term Futures index. The index was designed to provide investors with exposure to one or more maturities of futures contracts on the VIX, which reflects implied volatility of the S&P 500 Index at various points along the volatility forward curve. The ETNs are linked to a multiple (2x) of the daily return of the index and do not represent an investment in the VIX.

The CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility. Several investors expressed interest in trading instruments related to the market's expectation of future volatility, and so VIX futures were introduced in 2004, and VIX options were introduced in 2006. Options and futures on volatility indexes are available for investors who wish to explore the use of instruments that might have the potential to diversify portfolios in times of market stress.

TVIX is an exchange-traded note (ETN), which is an unsecured debt obligation backed by Credit Suisse. So there is credit risk when investing in it. Also, an ETN doesn't have to hold actual VIX futures but is rather just a promise to pay the returns of a VIX futures index.

Credit Suisse AG - VelocityShares Daily 2x VIX Short Term ETN has a current market capitalization of \$252.2 M with 22.38 M outstanding shares. Its daily average volume traded is 20.01 M shares.

### Key Indicators

ETNs Outstanding	22.38 M
Daily Indicative Value	\$11.27
Market Capitalization	252,197,141
Volume	24.67 M
% Change (Last Session)	24.68

### Performance (6 months)



### Recent News

TVIX and the CBOE Volatility Index have certainly been affected by the recent comments made by Fed Chair, Janet Yellen regarding her cautious words on emerging markets that sent another round of volatility in U.S. stocks. On the brink of posting its biggest three-day gain ever, a security designed to rise as equity market turbulence dissipates plunged almost 10 percent in the final hours of Thursday's session. The reversal came as swings in the Chicago Board Options Exchange Volatility Index quickened, with the gauge crossing the unchanged level 30 times after 2 p.m. It was the latest in a series of setbacks for selling or going short volatility, for years one of the safest trades in American equities. The

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tactic, which amounts to speculation that stresses that are here today will be gone tomorrow, has been losing money since mid-August, when concern about the global economy spurred the worst losses in stocks since 2011. Thursday was a particularly brutal day for the strategy as equities turned on a dime even after the Federal Reserve declined to raise interest rates. In typically frenetic post-Fed trading, the Standard & Poor's 500 Index saw a rally of as much as 1.3 percent evaporate as Yellen spoke of the potential for stress in emerging markets to spill into the U.S. The gauge tumbled 1.6 percent at 4 p.m. in New York. Swings in the VIX were more violent, with the gauge, a measure of investor nervousness derived from the price of options in the S&P 500, trading in a 23 percent range of 18.82 and 23.33 in the final hour. It closed down less than 1 percent while a separate index tracking the VIX's volatility surged 10 percent for the biggest gap between the two since April. The VIX's volatility reflected dealers in the options market pushing out bid and ask spreads as stocks looked for direction after the Fed announcement. Inaction by the Fed puts the focus back on concerns such as China's economy and plunging commodities, stresses that sparked a selloff in mid-August that at its worst erased more than \$7 trillion from global equity values. The Fed's statement warned that economic and financial developments around the world may restrain economic activity and curb inflation. Yellen mentioned the outflow of capital from developing countries and pressures on emerging market currencies in her Q&A session. It is not surprising people are talking about VIX exchange-traded products, which track derivatives on an index that goes up when there is fear in the market

## Pros

- TVIX gets the closest to "spot" VIX on those days when market fear is highest. They don't capture the whole move, but they get much closer than the popular iPath S&P 500 VIX Short-Term Futures ETN (VXX), which now trades more than Microsoft every day.
- Given recent market events and the upcoming economic calendar, leveraged VIX ETFs like TVIX, will perform quite well at tracking VIX which should experience several spikes in the near future.

## Cons

- Any time the reward is higher, so is the risk. TVIX will most likely suffer worse on days the VIX drops - as it inevitably does. Leverage amplifies these losses.
- Due to the structure of TVIX; an unsecured debt obligation backed by Credit Suisse, there is credit risk when investing in this product.
- TVIX is down more than 99 percent since inception. VXX isn't much better, down 96 percent. This destruction is due to the crippling cost of rolling VIX futures -- where almost always the next month is more expensive than the current month.

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## Verdict

TVIX is certainly a complex investment product not recommended for all investors. In essence, the product tracks market sentiment and fear and can experience heavy upward and downward spikes on a daily basis. TVIX does however pose a hedging opportunity for some investors and can provide short term gains for retail investors. Market volatility and fear are expected to pick up with the Fed decision being prolonged until December, the instability in global markets including China, Greece and Europe, and the volatile situation with the commodities market. TVIX is recommended for a short term buy during times of elevated fear and instability in the market. It however needs to be monitored very closely.

## Sources:

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We rate enrolled companies based on the appreciation potential we believe their shares represent, and the "riskiness" we perceive in our ratings. The business results of those companies "NOT RATED" are often highly dependent on some future event, such as FDA drug approval or the option of a new key technology.

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### BUY

The stock's total return is expected to exceed the total return of the relevant country Index average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

### HOLD

The stock's total return is expected to be in line with the total return of the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

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## NOT RATED

Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

## SELL

The stock's total return is expected to be below the total return of the relevant country's equity indices and/or the total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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