

## **HOW UVIX WORKS: THE BASICS**

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- UVIX is the only 2x leveraged VIX futures ETF.
- UVIX tracks twice the daily performance of the Long VIX Futures Index (Ticker: LONGVOL).
- UVIX may be a useful trading tool.

On March 30, 2022, Volatility Shares introduced the [2x Long VIX Futures ETF \(Ticker: UVIX\)](#). After a gap of one and a half years, UVIX reintroduced 2x leveraged VIX futures exposure to the U.S. ETF market. This article introduces how UVIX works, including how it trades, what it tracks, and its potential tax treatment.

## **UVIX IS A 2X DAILY RESETTING LEVERAGED ETF**

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UVIX seeks investment results, before fees and expenses, that correspond to twice the daily percentage moves of the LONGVOL Index\*. For example, if LONGVOL goes up 10% in one day, the goal for UVIX is to go up 20% that day.

UVIX differs from existing and previous VIX-linked ETFs in at least two important ways. First, UVIX is 2x leveraged long, compared with competing products that are either 1x or 1.5x leveraged long. And second, UVIX tracks 2x the LONGVOL Index rather than the legacy S&P 500 VIX Short-Term Futures Index (SPVIXSTR) that VIX ETFs have historically tracked.

This second difference is important because LONGVOL differs from previous indexes by using a 15-minute time-weighted average price (TWAP) of the underlying VIX futures' contracts in addition to their settlement to calculate its end-of-day closing value. The use of the LONGVOL Index aims to make UVIX less sensitive to the sometimes volatile end-of-day dynamics of the VIX futures market.

LONGVOL is calculated and maintained by the CBOE who posts the daily open/high/low and closing values along with history on their CBOE Index Dashboard [here](#). Additionally, Yahoo Finance publishes the current value using the ticker (^LONGVOL).

Lastly, the Net Asset Value (NAV) for UVIX is published daily on the Volatility Shares' website [here](#).

## HOW UVIX TRADES

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UVIX is an ETF which trades like a stock. It can be bought or sold whenever the market is open, as well as during pre-market and after-market periods. With an average bid/ask spread of a penny, and notional average daily volume in the millions, UVIX offers considerable liquidity.

UVIX is generally available to trade in tax-advantaged accounts (i.e. IRAs), although your broker/dealer may require you to read and electronically sign a document that describes the various risks of trading complex products. Please always read the prospectus for the fund before considering trading. The prospectus for UVIX can be found [here](#).

## CONTANGO

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Since their inception, VIX futures with more time until expiry have traded at higher prices than futures nearer to expiry approximately 80% of the time<sup>1</sup>. This upward sloping term structure is known as contango. Futures in contango can erode returns of funds that roll futures forward.

## VOLATILITY DRAG

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To position UVIX to deliver 2x the daily performance of LONGVOL, UVIX must adjust its futures holdings at the end of each trading day – effectively buying futures in a rallying market and selling futures in a declining market. The long-term effect of buying and selling in volatile markets may result in what is called volatility drag and may result in losses.

## LEVERAGE COMPOUNDING

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Conversely, leveraged compounding in leveraged ETFs occurs when daily prices follow a trending path. For example, if the day-to-day price action is generally in the same direction, then the rebalancing activity that UVIX performs each day may compound the ETF's daily leveraged returns and may cause the ETF to outperform the 2x daily objective over a longer period.

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<sup>1</sup> Data Source: Bloomberg

## UVIX USAGE CASE

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UVIX has no resemblance to a blue-chip stock that you buy and hold in your portfolio. However, traders may buy UVIX, or adopt a short-term bullish strategy with its options, in expectation of a market crash. VIX-linked futures and ETFs are perhaps the only investible asset that has historically gone up when the broader market goes down.

Furthermore, during strong market downturns, volatility has historically trended up<sup>2</sup>, and during such a trending period, UVIX may outperform its 2x leverage goal. The reason for this outperformance is the leveraged compounding discussed above.

Dramatic performance during market crashes is a key feature of leveraged long volatility ETFs, but there are significant cautions and caveats. First, it's notoriously difficult to predict when market crashes will occur. Volatility climbs rapidly when panic spreads through markets, but once the fear in equity markets starts to fade, volatility tends to collapse quickly, giving up much of its gains very quickly. For example, approximately one week after its March 18, 2020 peak, 2x the LONGVOL Index fell approximately 59%<sup>3</sup>. A long volatility trader's timing must be good on both entry and exit to be successful.

## UVIX STRUCTURE AND TAX TREATMENT

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UVIX is registered under the Securities Act of 1933, and, as such, will report gains/losses via IRS Schedule K-1 rather than a 1099 for taxable accounts. While this may add some complexity to tax reporting, it also may have some potential benefits. For example, gains may qualify for treatment as 1256 contracts, where gain/loss are split 60% long-term and 40% short-term regardless of how long the shares are held.

## CONCLUSION

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UVIX is an ETF intended for sophisticated traders and should not be viewed as a "buy and hold" investment. Traders will need to proactively manage their positions as frequently as daily.

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<sup>2</sup>Data Source: Bloomberg

<sup>3</sup>Data Source: CBOE

## ABOUT THE AUTHOR

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Stuart Barton is the CIO of Volatility Shares and a commodity trading specialist with more than 20 years' experience building and managing portfolios. Stuart holds a PhD in Economic History from the University of Cambridge, an MBA from the University of Surrey, and a B.Sc in engineering from the University of Cape Town. Stuart is also a CFA Charterholder.

## IMPORTANT INFORMATION ABOUT THE FUND

Past performance is not necessarily indicative of future results.

***Investors should consider the investment objectives, risks, charges, and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the Fund, please call 866.261.0273 or visit our website at [www.volatilityshares.com](http://www.volatilityshares.com). Read the prospectus or summary prospectus carefully before investing.*** An investment in the Fund involves risk, including possible loss of principal. The material available in this article is not an offer or solicitation of any kind to buy or sell any securities outside of the United States of America.

**Shares in the ETF or pool may be purchased and sold on the CBOE BZX.** The Fund is a series of the VS Trust ("Trust"), a Delaware statutory trust organized on October 24, 2019. The Fund is managed and controlled by the Sponsor, Volatility Shares LLC. The Sponsor is registered as a commodity pool operator ("CPO") and is a member of the National Futures Association ("NFA").

Investing in VIX futures contracts subjects the Fund to the risks of the VIX futures and affiliated markets, and this could result in substantial fluctuations in the price of the Fund's Shares. The Fund may be highly volatile and generally is intended for short-term investment purposes only. Due to the compounding of daily returns, the Fund's returns over a period longer than a single day will likely differ in amount and possibly even direction from the VIX or a portfolio of short-term VIX futures contracts over the same period. You could potentially lose the full principal value of your investment within a single day. Unlike mutual funds, the Fund generally will not distribute dividends to Shareholders.

Investors may choose to use the Fund as a means of investing indirectly in VIX futures contracts and there are risks involved in such investments and activities.

**Futures generally are volatile and are not suitable for all investors.**

**The Fund is not a mutual fund or any other type of Investment Company within the meaning of the Investment Company Act of 1940, as amended, and is not subject to regulation thereunder.**

Shares of the Fund are not FDIC insured, may lose value, and have no bank guarantee.

All supporting documentation will be provided upon request.

Foreside Fund Services, LLC is the marketing agent for the Fund.

\*LONGVOL is an excess return index designed to express the performance of a theoretical portfolio of long positions in first and second month VIX futures contracts that are rolled daily. The theoretical portfolio consists of the two nearest term monthly VIX futures contracts that are rolled daily so that the nearest month VIX futures contract is rolled to the second nearest month VIX futures contract in equal daily fractional amounts. This portfolio rolling seeks to maintain a constant weighted average time to maturity of approximately one month.

## QUESTIONS

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