

Volatility Returns With A Vengeance

Weekend Reading

Ironically, last week I titled the reading list *"Market Stasis"* with respect to the 43-days of sideways market action with relatively minor price fluctuations. That publication marked the respective end of that complacency. This past week has been anything but complacent as the volume in volatility trades have exploded simultaneously with wild swings in market price from spectacular declines to surging rebounds.



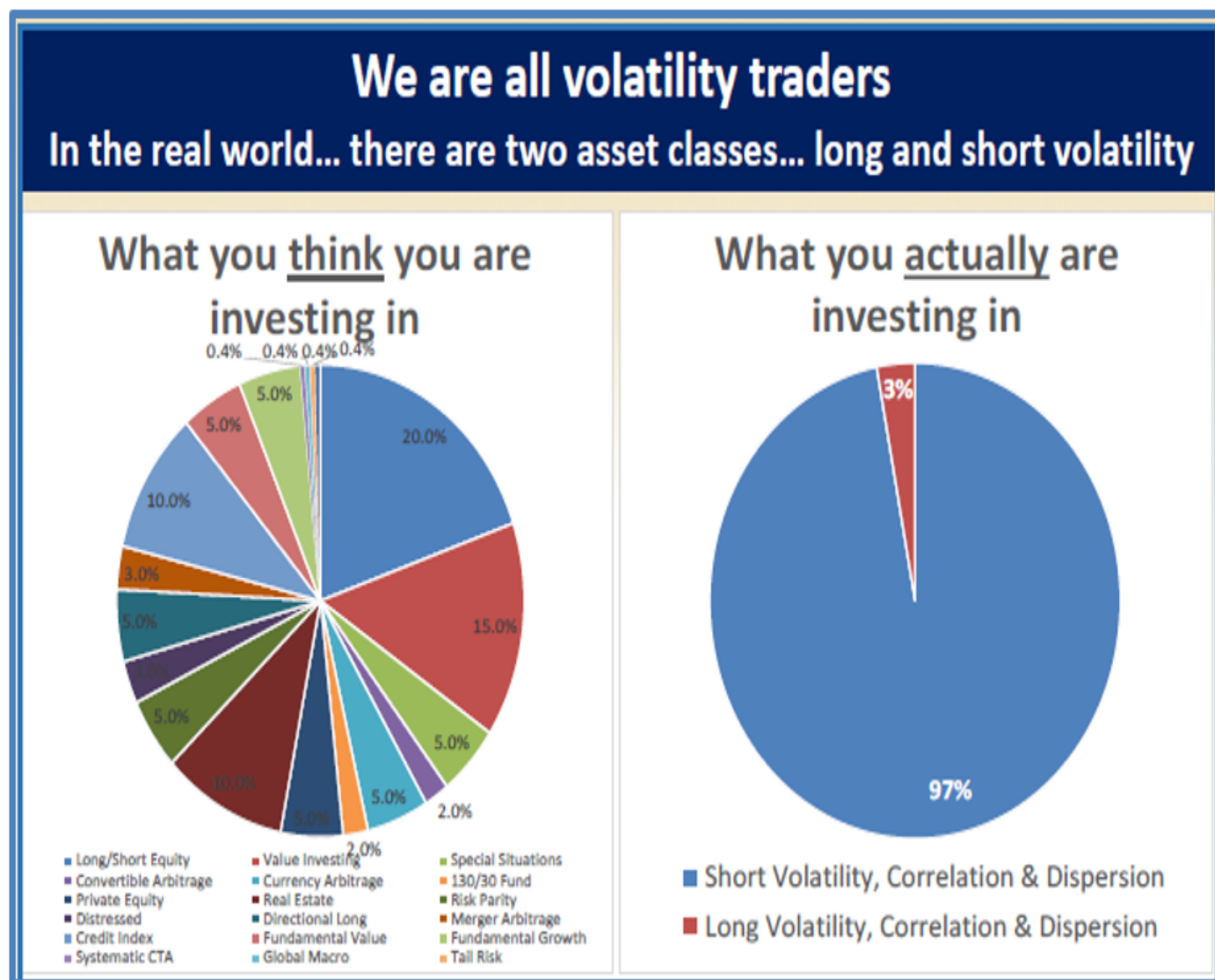
This corrective action, which I have warned about repeatedly over the last month ([see here](#)) may be different than the standard *"buy the dip"* correction. **The market has already violated both**

initial supports (the bull trend line and previous highs) which brings into focus the bull trend support line from the February lows. A violation of the latter will likely see the markets retest the 2020 level on the S&P 500.



One thing the sell off this week showed investors is what happens when correlations across asset classes become extremely high. When the selling begins, there is no "safe place" to hide. As my partner, Michael Lebowitz, [noted earlier this week](#):

"The truth of the matter is that blind diversification does not work simply because it does not take into account the effects of volatility on asset prices. Chris Cole from Artemis Capital, one of the clearest thinkers on the importance of volatility as an asset class, highlights this point in the following graphic."



Graph Courtesy: Artemis Capital

*"Contrasting the perception of a well-diversified portfolio with the reality of embedded volatility, the graph reflects enormous concentration risk in short volatility. **Importantly, this risk matters most at the exact point in time when one expects ? hopes ? their strategy of diversification will protect them.** Unfortunately, the well-diversified portfolio (left side) turns into the short volatility-concentrated portfolio in periods of extreme market disruption. **Mr. Cole's analysis may be best summarized with the popular statement that correlations on many assets go to one during a crisis.**"*

Let's put it this way. If you didn't like what happened to your portfolio this week during a mere 3% decline from recent peaks, just imagine what you will be feeling when a correction of some magnitude eventually occurs.

It is at this point, when individuals stare into the "abyss," the realization of the "risk" they have undertaken becomes most apparent. It is also when the mantra of "I bought it for the dividend" changes to religion as the prayers are lofted for a "bounce to get out."

This is why I focus on risk and the inherent management of it. The returns will take care of

themselves. But, in the meantime, here is what I am reading this weekend.

Fed / Economy

- It Only Looks Like The Good Life [by Danielle DiMartino-Booth via Money Strong](#)
 - If The Fed Had GPS, No Need For Forward Guidance [by Caroline Baum via MarketWatch](#)
 - The Age Of Stagfusion [by Buttonwood via The Economist](#)
 - Harvard University Crushes Obama's Recovery Story [by Tyler Durden via Zerohedge](#)
 - Economic Growth Level Is Unacceptable [by John Engler via CNBC](#)
 - The Scale Of Wholesale Economic Loss [by Jeffrey Snider via Alhambra Partners](#)
 - Ray Dalio: Fed Doesn't Need To Raise Rates [by Jen Wieczner via Fortune](#)
 - Recession Risk Moves Higher [by Douglas McIntyre via 24/7 Wall Street](#)
 - CB's Will Push Dow To 100,000 [by Marc Faber via Epoch Times](#)
 - Fed Is Planning Another SLOW Recovery [by Narayana Kocherlakota via Bloomberg](#)
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Markets

- This Market Sell-Off May Be Different [by Mohamed El-Erian via Bloomberg](#)
 - Deutsche Says 35-year Bond Rally Is Over [by William Watts via MarketWatch](#)
 - Surging Bond Yields Are Dangerous [by A. Evans-Pritchard via The Telegraph](#)
 - No Bear, Buy Stocks Instead [by John Tobey via Forbes](#)
 - 8-Sources Of Market Stress Ahead [by Rob Isbitts via MarketWatch](#)
 - Is The September Swoon Already Over [by Paul La Monica via CNN Money](#)
 - The Bull Is Still Running [by Paul Lim via NY Times](#)
 - This Is Nuts, Get Used To It [by David Keohane via FT Alphaville](#)
 - Pattern Signals A Potential 25% Plunge In Stocks [by Barbara Kollmeyer via MarketWatch](#)
 - Bond Market Will End Badly [by Brett Arends via MarketWatch](#)
 - Investors Have No Place Hide [by Nigam Arora via MarketWatch](#)
 - More Pain For Stocks To Come [by Michael Kahn via Barron's](#)
 - Last Time This Happened, Stocks Crashed [by Tyler Durden via ZeroHedge](#)
 - Sell In September Or Get Dismembered [by Doug Kass via The Street](#)
 - VIX Says Things Are About To Get Ugly [by Mark DeCambre via MarketWatch](#)
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Interesting Reads

- Elizabeth Warren Has 5-More Bad Ideas [by Paula Dwyer via Bloomberg](#)
- NFL's Most Valuable Teams [by Mike Ozanian via Forbes](#)
- Longest Bull Market Ever [by Meb Faber via Faber Research](#)
- 46 Reasons Why This Is A Great Time To Be Alive [by Morgan Housel via Tumblr](#)
- 97% Of S.S. Recipients Are Doing It Wrong [by William Baldwin via Forbes](#)
- Why Universities Are Failing [by Preston Cooper via FEE](#)
- America's Inequality Problem [by Eduardo Porter via NY Times](#)
- Justify Your Smart Beta Methodology [by Rob Arnott & Chris Brightman via ETF.com](#)
- Oil Crash Worse Than Dot.com Bust [by Value Walk via Financial Sense](#)
- Party Like It's 1999 (and 1929) [by John Hussman via Hussman Funds](#)

- **The Real Brainard Bloodbath Beckons** by David Stockman via Contra Corner
 - **How 1 Is Greater Than 40** [by Dana Lyons via Tumblr](#)
 - **Central Bankers & Einstein's Theory Of Insanity** [by Jesse Felder via The Felder Report](#)
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"A fool and his money are lucky enough to get together in the first place. ? ?

Gordon Gekko (Michael Douglas) Wall Street

Questions, comments, suggestions ? please [email me](#).