ABR 75/25 Volatility Strategy: 2H 2022 Update & Investment Case

2H 2022: Normalization of Volatility Trends Leads to Normalization of ABR 75/25 Performance

On a client webinar in July 2022, ABR made the case that 1H 2022 was a complete aberration in volatility trends, one so rarely seen it was a “1 in 50-year event”. ABR argued that a repeat of volatility trends seen in 1H 2022, though possible, were statistically unlikely. So far, in 2H 2022, this assertion has proven correct.

Since the VIX peak on June 13th, volatility trends have become more extended, lasting about 2 months at a time, rather than the 2-3 weeks from the first half of 2022. Although 2 months is hardly a long trend, the 2H 2022 environment has been more in line with the longer-term behavior of volatility and more favorable for ABR clients. The chart below makes a compelling argument for getting more involved with the ABR 75/25 Volatility Strategy, whether the market finally crashes (2008, 2020) or quickly recovers and volatility decays significantly (2021, 2019).

Investment Case: Long-term Performance & Diversification

Investors may think the ABR 75/25 Volatility Strategy’s long-term results have been quite compelling. **The ABR 75/25 Volatility Strategy has historically had a +8.7% (net) return when the S&P 500 is up (average: +10.0% for SPX), and yet still historically delivered +10.2% (net) on average when the S&P is down and VIX is over 40 (average: -12.4% for SPX).** Obviously, that comes at a price, and you have historically seen it when the S&P is down and the VIX is below 40, which was the case in the first 5-6 months of 2022.

Rolling 6-Month Returns & Correlations (2006 to Present)

S&P 500 6-Month Performance	Average Correlation	Average 6-Month Return		Observations	
		S&P 500	ABR 75/25	Count	%
Market Up	0.89	10.0%	8.7%	150	76%
Market Down & VIX High < 40	0.96	-7.4%	-8.7%	22	11%
Market Down & VIX High > 40	0.29	-12.4%	10.2%	25	13%

Bottom line:

There was a difficult 6 months in 1H 2022, much like 2H 2018, but things seem to have normalized a bit in terms of volatility trends in 2H 2022.

Semi-Annual Returns & Correlations (2H2017 to Present)

6-Month Period Ending	Correlation	6-Month Return		6-Month VIX High
		S&P 500	ABR 75/25	
12/29/2017	0.88	11.4%	6.3%	16.0
6/29/2018	0.93	2.6%	-4.4%	37.3
12/31/2018	0.98	-6.9%	-8.3%	36.1
6/28/2019	0.99	18.5%	17.4%	36.1
12/31/2019	0.89	10.9%	7.1%	24.6
6/30/2020	-0.36	-3.1%	16.3%	82.7
12/31/2020	0.99	22.2%	11.5%	40.8
6/30/2021	0.94	15.3%	12.7%	37.2
12/31/2021	0.96	11.7%	8.9%	31.1
6/30/2022	0.84	-20.0%	-32.5%	36.5
10/31/2022 (4 Months)	0.99	2.8%	5.3%	33.6

Disclosures:

Past performance does not guarantee future results.

The ABR 75/25 Volatility Strategy returns, for the periods ending October 31, 2022, have been -27.94% for one year, +5.46% for three years, +5.13% for five years, and +13.00% since inception.

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The S&P 500 Total Return Index, as adjusted to reflect reinvestment of dividends is an index of 500 stocks arrayed by market capitalization. The MSCI World Index is a free-float weighted equity index that includes developed markets. The “ABR 75/25” Volatility Strategy is represented by 75% of the returns of the ABR Dynamic Blend Equity & Volatility Index Powered by Wilshire (ABRVXX) and 25% of the returns of the ABR Enhanced Short Volatility Index Powered by Wilshire (ABRXIV), respectively (collectively, the ABR Indexes). Wilshire® is a service mark of Wilshire Associates Incorporated (Wilshire) and has been licensed for use by ABR Dynamic Funds, LLC. The ABR Indexes are not sponsored, endorsed, sold or promoted by Wilshire, and Wilshire makes no representations or warranties with respect to the ABR Indexes. ABR Dynamic Funds, LLC receives compensation in connection with licensing its indices to third parties. Investors cannot invest directly in an index.

The hypothetical performance history was systematically calculated utilizing a static blend of the firm’s long and short volatility models. The ABR strategy returns are shown net of hypothetical expenses of 2.00% fixed and 20.00% incentive fees. Actual expenses may vary. There exists an ABR-advised pooled vehicle in the US, which follows the ABR 75/25 Volatility Strategy, and for which various terms, including expenses, differ from what is shown in this material. The inception date of the US Pooled Vehicle was 8/3/2020. For information on the live trading performance of various ABR managed strategies or the hypothetical performance presented, please contact us.
ABRVXX was launched 4/30/15, and ABRXIV was launched 1/31/17, such that performance information before those dates constitutes pre-inception index performance. HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT,THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFITOF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERETO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. Hypothetical performance does not reflect actual trading experience and does not necessarily reflect the deduction of all expenses.

The strategy may acquire or enter into derivatives instruments and transactions. Derivatives are financial instruments that have a value which depends upon, or is derived from, a reference asset, such as one or more underlying securities, pools of securities, options, futures, indexes or currencies. Derivatives may result in investment exposures that are greater than their cost would suggest; in other words, a small investment in a derivative may have a large impact on the strategy’s performance. The successful use of derivatives generally depends on the ability to predict market movements. There may be an imperfect correlation between a derivative and its reference asset. Certain transactions, such as those involving investing in certain derivatives, may give rise to leverage, causing the strategy to be more volatile than if it had not been leveraged.

Certain derivatives transactions may involve one or more counterparties. A counterparty may become bankrupt or otherwise fail to perform its obligations due to financial difficulties, jeopardizing the value of the strategies’ investment. The strategy may experience significant delays in recovering an investment in a bankruptcy or other reorganization proceeding and recover only a limited amount or none of its investment in such circumstances.

Incorporating a dynamic volatility strategy into a portfolio is designed to help an investor potentially mitigate, and potentially benefit from, volatility in the U.S. stock market. However, all investing involves risk including the possible loss of principal. There can be no assurance such a strategy will achieve a gain or prevent a loss. Volatility assets and strategies may not be suitable for some investors due to their financial circumstances and risk tolerance. A volatility strategy should not be viewed as a complete investment program.

Volatility assets entail their own unique risks that investors should consider when evaluating a volatility strategy. Volatility based futures can become volatile and difficult to value and can be imperfectly correlated to the underlying asset or index. Due to leverage, the loss on a long futures contract could greatly exceed the initial investment. The loss on a short contract theoretically is unlimited since the appreciation of the shorted asset also theoretically is unlimited. Thus, a small investment in derivatives could have a large potential impact on the performance of a portfolio. Further, a volatility strategy may at times call for high portfolio turnover rates, which increases brokerage costs. High turnover also may generate net short term capital gains.