

# Stonebridge Market Wrap

June 23, 2017

**For the week ending June 23, 2017:** The Republicans rolled out the basics on their version of healthcare reform and the markets liked what they saw so far. The pharma companies have been quiet as this process has unfolded so far. The big pharma and hospital stocks have reacted positively, though it is too early to draw any conclusions because the Senate has yet to vote. If the Senate passes this bill, it has to go to a conference committee to iron out the differences. That said, the pundit class gave them zero chance of getting this thing out this summer, or even this year, so it is good to be a pundit I guess. .

The market had a dull week this week. Volatility has continued to be absent. This whole set up reminds me of the line in old cowboy movies; “it’s quiet out there...too quiet.”

**Dave Eckenrode**  
**Director of Equity Management**

## Key Economic Releases for the coming week:

### Monday, June 26th:

- ◆ Durable Goods Orders; (.6.%) expected

### Tuesday, June 27th:

- ◆ Consumer Confidence; 116 expected

### Thursday, June 29th:

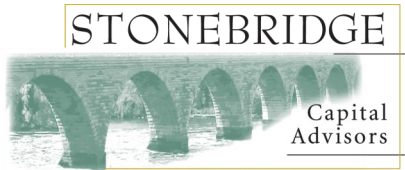
- ◆ 1Q GDP Revised; 1.2% expected



### Index & Price Changes for week ending 6/23/17

DJIA- 21,394.76	Rose 10.48 points
NASDAQ- 6265.25	Rose 113.49 points
S&P 500- 2438.30	Rose 5.15 points
S&P Small Cap 600- 853.17	Rose .48 points
90 Day T Bill- .96%	Yield Fell .04%
2 yr TSY- 1.34%	Yield Rose .02%
5 yr TSY- 1.76%	Yield Rose .02%
10 yr TSY- 2.15%	Yield Was Unchanged
30 yr TSY- 2.72%	Yield Fell .06%
Oil- \$ 42.98*	Fell \$2.85 per barrel
Gold- \$ 1256.80*	Fell \$15.70 per oz.
Unleaded Gasoline*- \$1.43	Fell \$.03 per gallon
Euro- \$ 1.1195	Fell \$.0002 against the \$

\* Wholesale price for NY Mercantile Exchange traded contract



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## **What is the VIX?**

The Chicago Board Options Exchange maintains a volatility index commonly referred to as the VIX. We often mention the VIX in our Market Wrap and other communications as simply a measure of volatility in the market. The VIX has entered news headlines recently due to the suspiciously low levels maintained over the last year. However, we've spoken at great lengths in the past as it relates to the behavior of the VIX and how that helps illustrate market behavior. The purpose of this piece is to break down what the VIX actually is. It is often referred to as a measure of volatility in the market. Technically, this is not correct. If we wanted accurate measurements of volatility, we would simply use the standard deviation of returns in recent periods. But what good would historic information be if our goal is to develop metrics that give us an indication of future behavior? (Technicians might take issue with this statement, but that is a discussion for a different time.) Long story short, the VIX is actually an estimate of future volatility. The Chicago Board Options Exchange arrives at this figure by averaging the implied volatility on a number of S&P500 options contracts. These contracts are 30 to 60 days from expiration. (On a side note, our options strategies operate in the 30 to 60 day time frame as well. This is another reason we monitor this index.)

Like the VIX, the term "implied volatility" or VOL, is often thrown around by derivatives traders leaving the casual observer in the dust. However, the meaning of this term is straight forward. Implied volatility is essentially a representation of the market's bullish/bearish view on a security. This is based on probability, and in turn, reflected in the current price of the security. Typically, this means an option contract is worth more or less depending on the market's consensus of the future price volatility of the security. Low VOL essentially means the market does not expect extreme downward price fluctuations going forward. Again, this is simply probability and a reflection of current investors' behavior, it is not guaranteed price performance.

In conclusion, the VIX is a representation of the average implied volatility of S&P 500 options contracts looking forward 30 to 60 days.

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Here is an example of S&P500 options contracts. The column “IVM” is the implied volatility. This is the number used to create the VIX.

The screenshot displays an Option Monitor window for the S&P 500 Index. At the top, it shows the SPX price at 2446.67, up 8.37 from the previous day. The window is set to show 99 Actions and 97 Settings. The main table lists various call and put options with their respective bid, ask, last price, implied volatility (IVM), and volume (Volm). The table is organized by expiration date, with sections for 30-Jun-17, 21-Jul-17, and 31-Jul-17. Each section includes a summary row with CSize, IDiv, R, and FF values. The bottom of the window shows contact information for various international offices and a copyright notice for Bloomberg Finance L.P.

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