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Hedge Fund CIO: "If It Is Scenario B, Then It's Bombs Away For Stocks"



by Tyler Durden

Sun, 02/11/2018 - 10:13

What better post-mortem on the events from last week when the long-awaited **volocaust** finally hit, than one from Eric Peters, CIO of One River Asset Management, who just one month ago we wrote is "[Betting All On A Volatility Eruption](#)" as "A Historic Reversal Is Coming." He was right.

As a reminder, back in October, we [discussed a report](#) that several hedge funds have sprung up with just one strategy in mind: preparing for the arrival of the "fat tail", i.e., **betting on a sharp spike in depressed, comatose volatility**. One among them, was One River Asset Management, a manager of \$700 million led by Eric Peters in Greenwich.

Just over three months later, Peters' thesis has borne out, following the biggest VIX eruption in history.

But was that it, and will vol revert back to more "conventional" level, or was last week's move just the beginning of something even bigger?

In his latest weekend letter to investors, Eric Peters explains what the two paths ahead are, and why one of them could result in Lehman-like devastation for markets and is **"bombs away for risk prices."**

Weekend Notes from One River's Eric Peters.

In Real Time

"We think this is very clearly the first leg of a paradigm shift to a higher volatility environment," we wrote early Tuesday, our investment team reflecting on Monday's remarkable events.

"The VIX ETF/ETN complex imploded yesterday/today. These products were the most exposed and thus the first to go because of their mechanics (it's harder for VIX to double in a day from high levels than it was from low levels). Relative to the aggregate of all other forms of volatility selling, they're not big, just really painful. They make for good headlines too. So the question now is whether the pain/spark of their blowup is enough to ignite bigger structural volatility shorts?"

"That's a hard question to answer. There are two paths, A & B," we continued.

- **(A) "This is the equivalent of the June 2007 Bear Sterns moment.** In this scenario, market participants see the VIX ETF/ETN complex implosion as an isolated event sparked by poorly constructed products. Once investors really understand how they were constructed, they gain comfort in the 'superiority' of the strategies that they currently use to sell volatility (uncapped variance, risk parity, vol control, put selling, etc). They feel smart. **And continue selling. Until a more widespread volatility unwind inevitably unfolds - probably tied a bit more closely to the economy and QE exits by the ECB/BOJ."**
- **(B) "This VIX ETF/ETN spark ignites other structural volatility shorts over the coming days/weeks, driven by a critical mass of risk managers across the financial industry not wanting to be the last to de-risk.** Selling of risk assets increases volatility and this sparks more selling of risk assets in a reflexive way. **In this scenario, visions of the ETF/ETN blowup makes value investors more patient in buying the dip. And with a new Fed governor, you don't get a swift response. It's bombs away for risk asset prices."**

We really don't know which scenario it is (A or B). But we're not adjusting our long volatility portfolio in a major way right now other than some modest position rotation. If it's (A) then we will suffer giveback. But we don't think we'll revisit the lows in implied volatility now that this event has happened.

This move shows all the signs of being the beginning of something big and we won't see the same cheap levels to get in again.

If it is (B) then risk assets have a long way to fall. Longer-dated volatility will move substantially higher. Volatilities across asset classes will catch up.

In terms of near-term market signals, the lack of major contagion into asset classes other than equities (volatility in both FX and gold is remarkably muted, rates volatility is moving higher but not by a lot), suggests that there is a very decent chance that it is scenario (A).

However, if markets don't bounce in the next day or two, then it's probably (B).

And if we do get a bounce in the S&P but then we get a couple daily closes below last night's low in S&P 500 futures (2529 overnight low), then it really raises the risk that it's also (B).

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[ArkansasAngie](#) • Feb 11, 2018 10:17 AM [Permalink](#)

The level of uncertainty in the market as demonstrated by the divergent predictions is chaos theory at work

31
1





[Perimetr](#)  [ArkansasAngie](#) • Feb 11, 2018 10:24 AM [Permalink](#)



The banksters aren't going to quit

They will keep creating digital fiat until hell freezes over



in order to prop up markets

4  [Iloll](#)  Perimetr • Feb 11, 2018 10:31 AM Permalink
15 "the beginning of something big"



Heck, yeah! I'd say **Cataclysmic!**

25  [IH8OBAMA](#)  Iloll • Feb 11, 2018 10:41 AM Permalink
1 These guys have it all figured out. "If it doesn't go up then it will probably go down."



I hope it goes sideways and fucks with all of them.



18  [TheWholeYearInn](#)  IH8OBAMA • Feb 11, 2018 10:49 AM Permalink
0 Chances are 50-50 that it'll either go up or down. Your bill for my 'expert' advice is due on Wednesday.

Your other option is to follow Dennis Gartman. He's taking both the up & down on the coin flip (which means the coin will land on it's side).

3  [New_Meat](#)  TheWholeYearInn • Feb 11, 2018 11:12 AM Permalink
0 Gartman has the predictive power to do that--to make the coin stay on its edge, but only when he doesn't call it that way.

"We are heads of stocks."

7  [BullyBearish](#)  New_Meat • Feb 11, 2018 11:19 AM Permalink
0 he who panics first...panics best...

2  [mkkby](#)  BullyBearish • Feb 11, 2018 3:21 PM Permalink
0 Idiots like this author are focused myopically on Vix. The elephant in the room is leverage. Rates have shot up the last 4 months. Nothing to do with the fed, which is WAY WAY behind the curve.

Stocks, bonds, real estate and everything else are jacked up in price because of leverage. Lowest rates in history. If that leverage unwinds it is bombs away.

QE 4 has to come because trillion dollar deficits. But is inflation finally making a comeback? That is what has the market spooked for the last 2 weeks. Maybe the tide is finally going out.

1  [JackHydrazine](#)   Iloll Feb 11, 2018 1:11 PM Permalink

1 *"the beginning of something big"*


"Heck, yeah! I'd say **Cataclysmic!**"

I'm expecting a global financial cataclysm on the equivalent of a Yellowstone super volcano VE7 eruption. It will be centered in the US, but everyone will be affected by it to a greater or lesser degree.

The amount of debt the USA and the rest of the world has piled up can't be sustained for much longer. There's a reason why countries like China, Russia and others are hoarding gold like no tomorrow and why JP Morgan is hoarding silver to at least 675 million troy ounces. They know a financial cataclysm is coming and the only thing that will save them is precious metals. Fiat money and cryptocurrencies will be destroyed by it.

From this cataclysm, there will be very tough times, but I think much good will result from it - socially, politically, and financially.

11  [Disgruntled Goat](#)   JackHydrazine • Feb 11, 2018 1:24 PM Permalink




1  Too bad that we could have avoided it by simply letting the banks fail 10 years ago and letting new ones emerge in their place we would be over it and on to a roaring new economy now, instead of the ersatz Magic Negro "recovery" we are currently suffering through

2  [Obscene FRN Call](#)   Disgruntled Goat • Feb 11, 2018 1:56 PM Permalink

0 Ersatz, a great word to describe most of the qualities of contemporary, Blue Pill life.

1  [overbet](#)   Disgruntled Goat • Feb 11, 2018 3:06 PM Permalink




0 Worked for Iceland. When I argue with my liberal associates about the Obama "recovery" they completely ignore or brush off the fact that any monkey could print that much and prop up the economy.

0  [Dangerclose](#)   JackHydrazine • Feb 11, 2018 2:28 PM Permalink

1 I would disagree with the "cataclysm" bringing down cryptos as well. The fact that the 2008 crisis was merely papered over is the main reason Bitcoin came about. I will admit that not all will survive but there will be utility and hence value in many of them. Precious metals will be giving some of their potential to the cryptos when the battle rages.

0  [pc_babe](#)   Iloll • Feb 11, 2018 3:52 PM Permalink

0 1 Month troll'tard

15  [Joomanji64](#)   Perimetr • Feb 11, 2018 10:33 AM Permalink

20 I disagree, there will be no QE this time. This is the beginning of the end....of America!

13  [Honest Sam](#)  Joor...64 • Feb 11, 2018 10:53 AM Permalink

3

America as a concept, an ideal, or magical thinking entity began its metamorphosis to an immoral, murderous and disgusting country when Attorneys in the Supreme Court (calling them justices is a total lie) i.e. Blackmun, joined by Burger, Douglas, Brennan, Stewart, Marshall, Powell decided they and only they had the almighty power to decide to arbitrarily, capriciously change when the life of our children begins.



Once the killing of completely innocent lives became a right, instead of a rare and judiciously determined, case by case situation, the decline of civilization as we knew it began.

Since then, the same court with a different set of players decided that they could live with the hypocritical fact that it was heinous, disgusting, immoral and likely murder to kill inhuman beings like this:

https://en.wikipedia.org/wiki/Deborah_Green

<http://a57.foxnews.com/images.foxnews.com/content/fox-news/us/2017/11/2...>

<https://www.ranker.com/list/famous-serial-killers-who-are-still-alive/r...>

9  [Disgruntled Goat](#)  Honest Sam • Feb 11, 2018 1:17 PM Permalink

2

I often find it amusing that Negroes support such organizations as Planned Parenthood, seemingly unaware that it has its origins in controlling the population of Negroes in the US by aborting as many black babies as possible PP has managed to cloak itself in the "legitimacy" of feminism and The Left, yet its goals (and effects) remain the same if Negroes were smart, they would be adamantly pro life the abortion of millions of black babies does nothing to advance their "cause"



4  [directaction](#)  Disgruntled Goat • Feb 11, 2018 1:48 PM Permalink

0

The new federal budget requires \$1.1T that does not exist.

The government must create this missing money.

That means QE4

1  [mendigo](#)  directaction • Feb 11, 2018 2:16 PM Permalink

0

Excellent point.

The market will fall as much as the fed chooses to allow.


We are only into second leg of the race.

Do not attempt to adjust the picture. We are now in control of the transmission. We control the horizontal and the vertical.

2 [inosent](#)  Honest ... • Feb 11, 2018 2:07 PM [Permalink](#)

1 "Once the killing of completely innocent lives became a right, instead of a rare and judiciously determined, case by case situation, the decline of civilization as we knew it began."

May Harry Blackmun rot eternally in hell and feels its scorching fires forever, and the pain the millions of babies felt as they were butchered in their mother's womb.



3  [gatorengineer](#)  Joomanji64 • Feb 11, 2018 11:25 AM [Permalink](#)

3 I upvoted your comment however to quote Churchill



We shall print for them on the beaches, we shall print for them on the landing grounds, we shall print for them in the fields and in the streets, we shall print for them in the hills; we shall never stop printing,

Friday was most certainly evidence that they have a printer and aren't afraid to use it.



I sincerely hope this is the reset, and mainstreet may have breadlines, but wallstreet will still have caviar.

3  [Hope Copy](#)  Perimetr • Feb 11, 2018 10:52 AM [Permalink](#)

0 It it don't come from one part of the barn yard, it will come from another.

2  [blindfaith](#)  Hope Copy • Feb 11, 2018 1:18 PM [Permalink](#)

0 A full 50% of those surveyed said at least half of those surveyed were wrong.

1  [JohnGaltUK](#)  Perimetr • Feb 11, 2018 11:28 AM [Permalink](#)



0 It's frozen over.

3  [s2man](#)  Perimetr • Feb 11, 2018 1:39 PM [Permalink](#)

0 I also disagree. I think the globalists have set us up for a HUGE fall. They need to turn USA into a third world country, and destroy the SWIFT financial system. All US paper will be worthless. They want to make *everyone in the world* beg for a new currency and a global financial system.


2  [Quantify](#)  s2man • Feb 11, 2018 2:08 PM [Permalink](#)



0 Nations for the most part remain Nationalist. Just because the west has devalued its currency isn't going to make China, Russia, India and 90% of the rest of the world want to accept a single currency backed by what? Nothing. No not happening. They aren't going to wipe the slate clean for a handful of bankers.

2  [Fredo Corleone](#)  Perim... Feb 11, 2018 3:56 PM Permalink


0 Correct. A minimum of three rate increases assumed in 2018 ? At this point - Macho Man Bill "Small Potatoes" Dudley's comment notwithstanding - two look to be Powell's max pain limit...if even that.

3  [new game](#)  ArkansasAngie • Feb 11, 2018 10:28 AM Permalink

2  option c) Just Observing from the comfort of a desk chair (right know) with a strong black coffee (just like i like my women-haha).

7  [Richard640](#)  new game • Feb 11, 2018 11:45 AM Permalink

5 Black women, the poor dears, have a strong vaginal odor-I know from experience in my teenage years-I prefer to fress the coozies of silks...

4  [Disgruntled Goat](#)  Richard640 • Feb 11, 2018 1:07 PM Permalink

1 They are all extremely nasty as well

5  [Bondosaurus Rex](#)  ArkansasAngie • Feb 11, 2018 11:16 AM Permalink

0 There is a 100% chance with no uncertainty that something is plausibly happening by no deliberate design of amorphous nature that may or may not have the elusive black swan effect given the indecicesvness and permutatable nature of vague markets. With that said here is my fee of 2 and 20.

4  [Giant Meteor](#)  Bondosaurus Rex • Feb 11, 2018 11:23 AM Permalink

0 Thank you Mr. Greenspan!



1  [SheHunter](#)  ArkansasAngie • Feb 11, 2018 12:01 PM Permalink

0 Thoughtfull article. Thanks.

Those who like a good read might go into Alt-market.com and check out Brandon's Feb 7th article Is the Massive Market Reversal Upon Us.

2  [Disgruntled Goat](#)  ArkansasAngie • Feb 11, 2018 1:05 PM Permalink



0 Heres my theory Lack of, or decreasing, overt Fed support for asset prices causes them to fall too fucking bad ... the financial industry has been sucking off the government tit for 10 years now, meanwhile citizens get an artificially depressed .02% interest on deposit savings go fucking die

0  [JRobby](#)  [ArkansasAngie](#) • Feb 11, 2018 1:36 PM [Permalink](#)


0 The great thing about "finance is complex" is that they are all experts until they are broke and out of the "game".

(casino = game(s) (see "gaming commission") or, remember this?: Securities Exchange Commission)



So write up a fancy piece with a lot of convincing charts and numbers and throw it out there "for consideration" because "finance is complex".

0  [Fundies](#)  [ArkansasAngie](#) • Feb 11, 2018 2:32 PM [Permalink](#)



0 Opening up hatch doors Sir !!!!!

22  [Fiat Burner](#) • Feb 11, 2018 10:17 AM [Permalink](#)


0 Gartman signaled a bounce was coming with his short call. Wait for him to cover and reclaim the bull market is back before getting short again.

0  [gatorengineer](#)  [Fiat Burner](#) • Feb 11, 2018 11:25 AM [Permalink](#)

0 I hope thats before tomorrows open....

0  [Pearson365](#)  [Fiat Burner](#) • Feb 11, 2018 2:46 PM [Permalink](#)

0 A remarkable lack of volatility in gold and FX tells you that this is a rigged market sell off.

31  [BraceforImpact](#) • Feb 11, 2018 10:19 AM [Permalink](#)

4 Actually, it's bombs away anyways because it is mathematically impossible for anything else to occur but total catastrophic failure.



They pushed up a already broken and failed market with cheap credit and a bunch of shitty Keynesian economic garbage.


The fuse is lit, there's no way out, and the average subject peasant regardless of country is going to bend over and take it.


This will be the single greatest collapse in the history of mankind.


Anything built on lies will crumble to nothing.

Brace for impact. Seriously.


5  [new game](#)  [BraceforImpa...](#) Feb 11, 2018 10:34 AM Permalink

1  fear porn so damn early, vol lol

10  [BullyBearish](#)  [new game](#) • Feb 11, 2018 11:21 AM Permalink

0  that it WILL happen is NOT the question, the question is WHEN and it may have ALREADY happened...


8  [Giant Meteor](#)  [BullyBearish](#) • Feb 11, 2018 11:37 AM Permalink

0  It's already happened. The big game is to have attempted to make it look like nothing had happened, just a little glitch in the matrix is all so that is to say, paper and plaster right over the event while singing, don't worry, be happy, and buy the fucking dip. Add a couple coats of paint, good to go.

As another commenter has accurately pointed out, a foundation built upon fraudulent action, representation, lying, and all round bullshit, ain't really much of a foundation. And although the house may stand for a time, tarted up with all sorts of nice looking cosmetic amenities, sleights of hand, a few good coats of paint, ultimately there will be a reckoning due to the known faulty foundation, now ignored and long forgotten.

The inevitability of inevitability ..

0  [Wild tree](#)  [Giant Meteor](#) • Feb 11, 2018 1:02 PM Permalink

0  GM, I agree, Dave called it out correctly IMHO from a fairly recent article here on ZH. Here is what he wrote in three sentences that is the sum of the whole article, and why the seeds of our destruction as a country, and the world have been fervently watered since 2008. This will usher in the one world government at it's conclusion.

"No, the fundamentals do not provide reason for optimism. They provide reason for grave concern. As I've been writing all along, the greatest fundamental that is exerting pressure right now is the massive debt that the entire global economy is built on."


The steam train is on the track, clickety-clack, clickety-clack,

Picking up speed as it heads down the mountain that's a fact, clickety-clack, clickety-clack.



People are hanging on for dear life, clickety-clack, clickety-clack,

Won't matter none when the train runs out of track, clickety-clack, clickety-clack.

6  [arby63](#)  [BullyBearish](#) • Feb 11, 2018 11:47 AM Permalink

0  The wheels could be in motion this time. Hard to say of course. With the extreme hatred of Trump, the chaos in the Beltway, the MIC out of control, the swamp fighting back for control, the ME on fire, the banks not lending (to each other or anyone else), fake news, fake charts, fake Fed, fake fiat, etc.

Someone said above that it could be epic no matter where you live. I agree with that for sure. I've always suspect that when the plug gets pulled, we could never know until the tsunami rolls us right over.

2  [geno-econ](#)  BraceforImpac... Feb 11, 2018 11:49 AM Permalink

0 It will continue until dollar reserve currency status is destroyed by lack of confidence in ability to repay debt via growth, ability to export ill effects of massive debt or overspending on defense and failed military adventures. Probably all three will occur at the same time which will mean Game Over for American Global dominance . Up next will be China thanks to Mr. Kissinger and Mr Greenspan.

4  [Cesare de Borgia](#) • Feb 11, 2018 10:19 AM Permalink

0 "Once investors really understand how they were constructed, "



If anybody knew how they were constructed you would not touch it you might as well go to a Casino!

2  [ktown](#)  Cesare de Borgia • Feb 11, 2018 11:13 AM Permalink

0 Fed knew all about the positioning? (They were writing papers warning about the implications) buy on rumours of tax cut, sell on news?

0  [aqualech](#)  Cesare de Borgia • Feb 11, 2018 11:15 AM Permalink

0 But for some extended period the game was rigged....it was understood that there was a put in place safeguarding the market. The gamblers were emboldened. Until there wasn't and they weren't.

5  [New_Meat](#)  Cesare de Borgia • Feb 11, 2018 11:16 AM Permalink

0 Casinos are rigged in an honest and transparent way.

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