



VCA Blog  
March 21, 2017

Precursor to a **Black Swan**...



## Black Swan Sighting?

Vertical Capital Advisors Blog March 21, 2017

ALPHARETTA, GA – Today marked the first significant drop in broad market indices in the Trump era.

Since the election, the S&P 500 has climbed more than 11%, the Dow Jones Industrial Average (^DJI) has gained 14% and the Nasdaq Composite Index (^IXIC) has climbed about 13.6% during the same period and the S&P 500 and Dow had now gone 109 days without a 1% decline according to Yahoo Finance, a record not achieved since 1995.

Today, all of the broad market indices dropped by more than 1%:



Source: Yahoo Finance

The real story is what has been happening behind the scenes. As the markets proceeded on a three-month tear, money managers have been allocating significantly more money to protect their gains. The price of the CBOE Skew Index, a measure of the price of out of the money put options, has soared while market volatility has decreased – a diverging trend that is not typical and a possible sign of imminent volatility in the near future. In layman's terms, professional investors are increasing willing to pay much more to protect against downward stock prices. You can see the increasing cost of Skew puts (white line) compared to overall market volatility (blue line) in the Bloomberg screenshot below:



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Some are calling this a precursor to a Black Swan event like the one that heralded the last recession.

What does this mean to you? Bond prices will likely rise and foreign stock markets will likely take a bigger percentage dive because when America sneezes, Asia often gets a typhoon and the rest of the world catches a cold. Asia reacts first because their markets are the first to open, followed by Australia, the Middle East then Europe and South America. (Absent any buying signals of which there are none at present).

What should you do? As an investor, nothing. You did an excellent job of creating a well-diversified and down-side protected portfolio with your investment adviser so if we do have a setback in the market, wait it out and look for buying opportunities when the dust settles.

As a business owner, the answers are more complex. If this is truly a black swan, a repeat of 2008-2012 or worse, there are few safe havens. If you have kept up with the Vertical Capital Advisors blog posts over the past year, you have been steadily building your cash hoard and your warchest will enable you to secure a dominant position in the markets you serve.

As we published on August 3, 2016, you can channel Baron Rothschild and "Buy when there's blood in the streets, even if the blood is your own".



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### ABOUT VERTICAL

Vertical Capital Advisors is an Atlanta-area business advisory firm built on **creating tangible value** for our clients, serving clients in just about every industry. Our clients are both capital growers and capital allocators. How can Vertical help your firm maximize value?

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