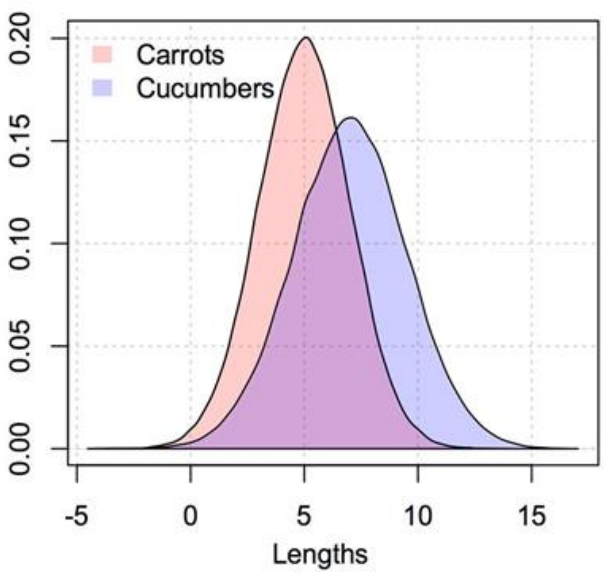
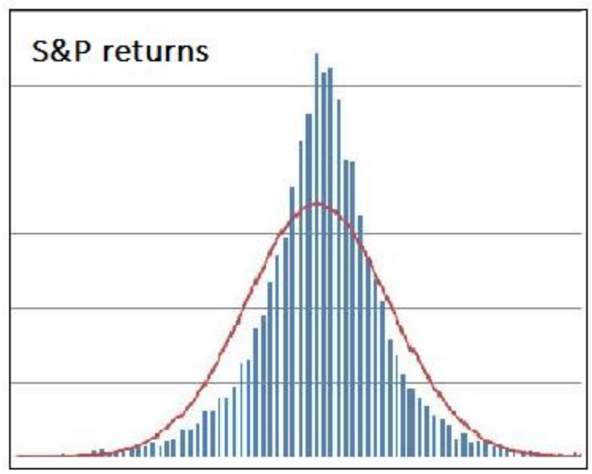
Defense of a loss on SVXY options

Fordham Gabelli School of Business, February 19th, 2020





Abstract:

After successfully selling naked option for 15 months, a retail trader met an overnight loss of $6m – he was short small puts on leveraged VIX ETFs on that fateful day of February 5th, 2018. Unable to meet his margin call, his broker-dealer immediately liquidated his position, and soon after brought him to a FINRA arbitration to recover the losses.

After reviewing the trader's losses, his contractual obligations and his legal standing, we will introduce the technical arguments brought forward for his legal defense. The statistical analysis of the S&P, VIX and VIX leveraged ETFs show a strong non-normality of returns, high volatilities, high gap risks and high exoticity. These mathematical facts are brought against the broker-dealer's responsibilities, statements, risk management models and systems, as well as FINRA margin regulations.