

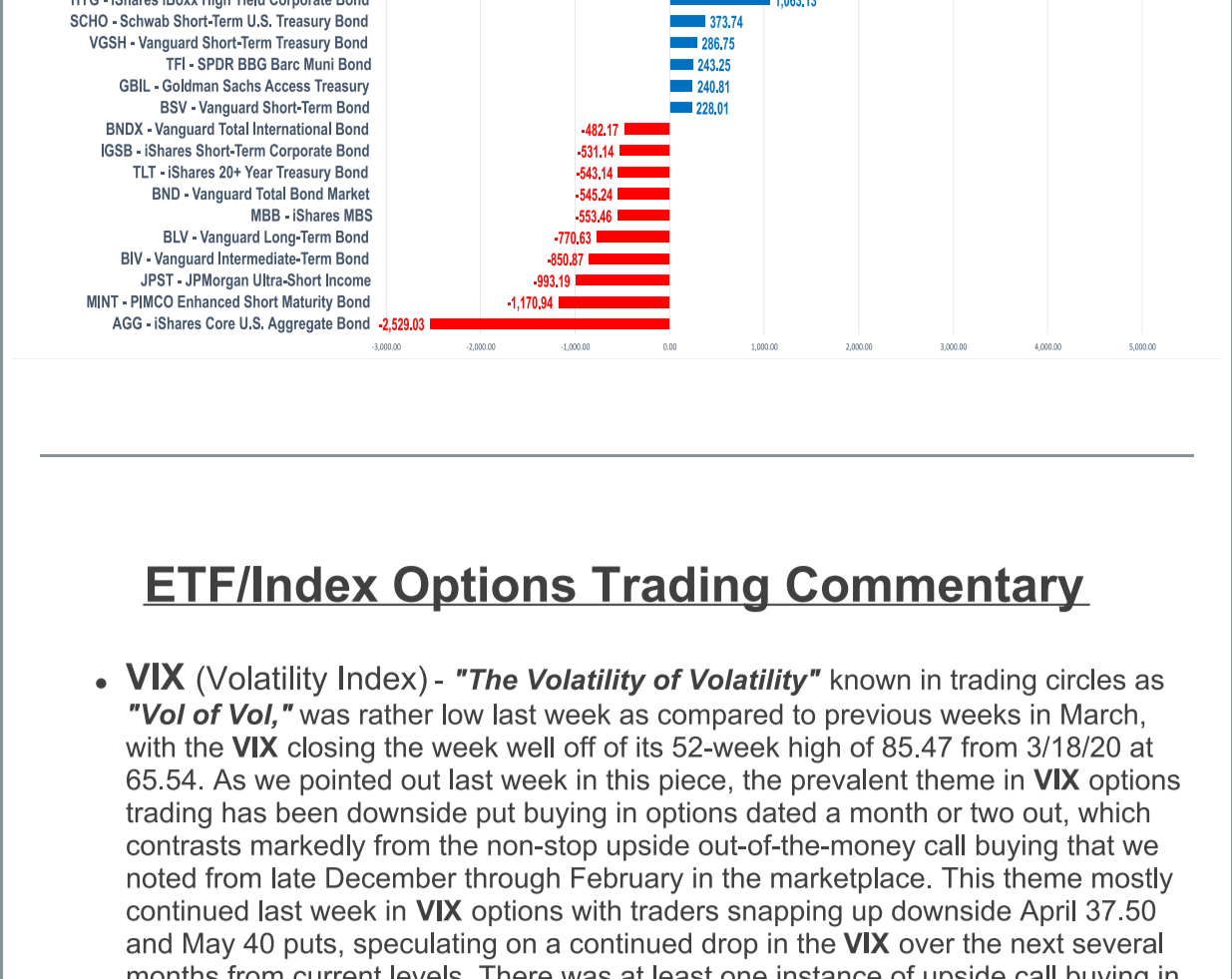
ETF WEEKLY

"FOR INSTITUTIONAL USE ONLY"
By: Paul Weisbruch

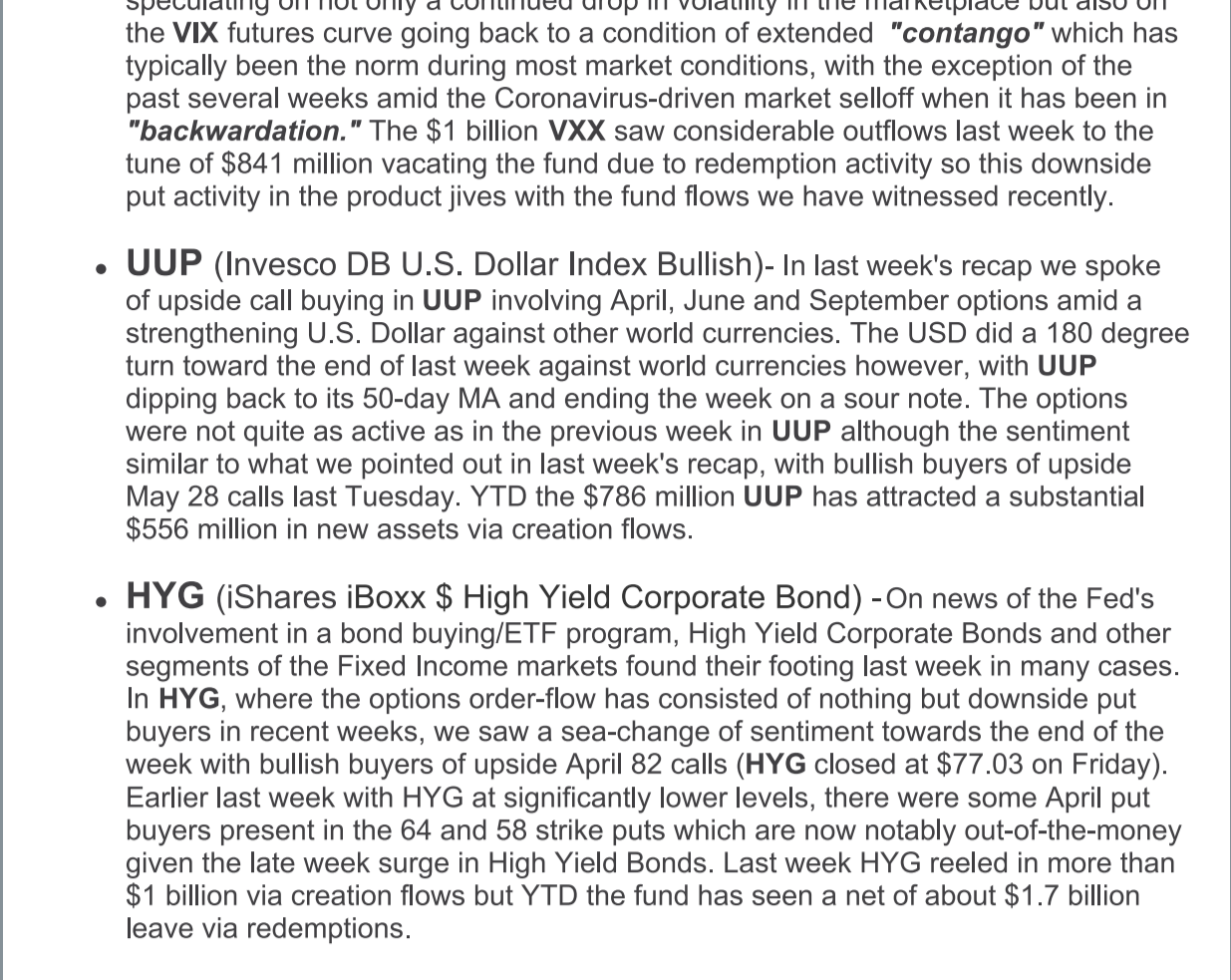
Monday March 30, 2020

ETF Fund Flows

Weekly Inflows/Outflows - U.S. Equity/Commodity ETPs



Weekly Inflows/Outflows - U.S. Fixed Income ETPs



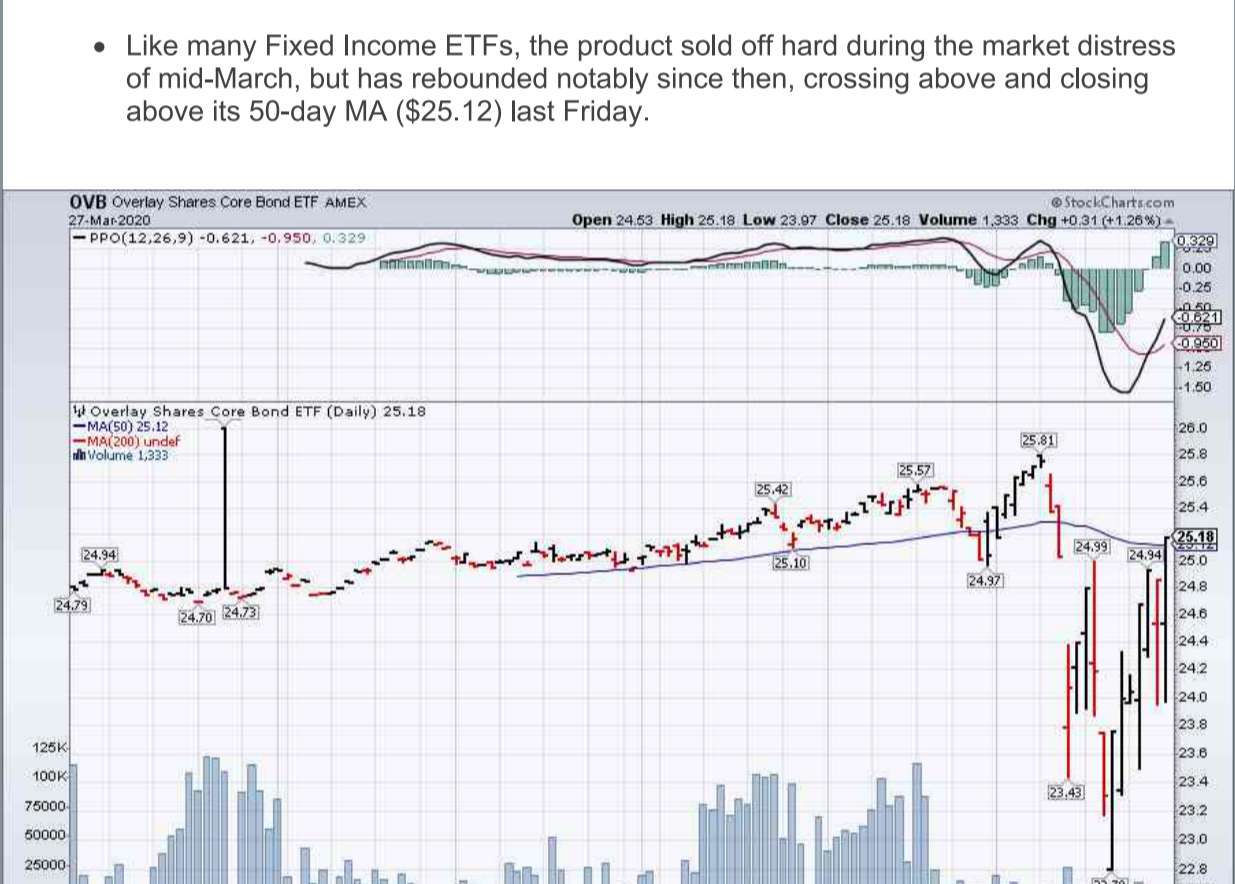
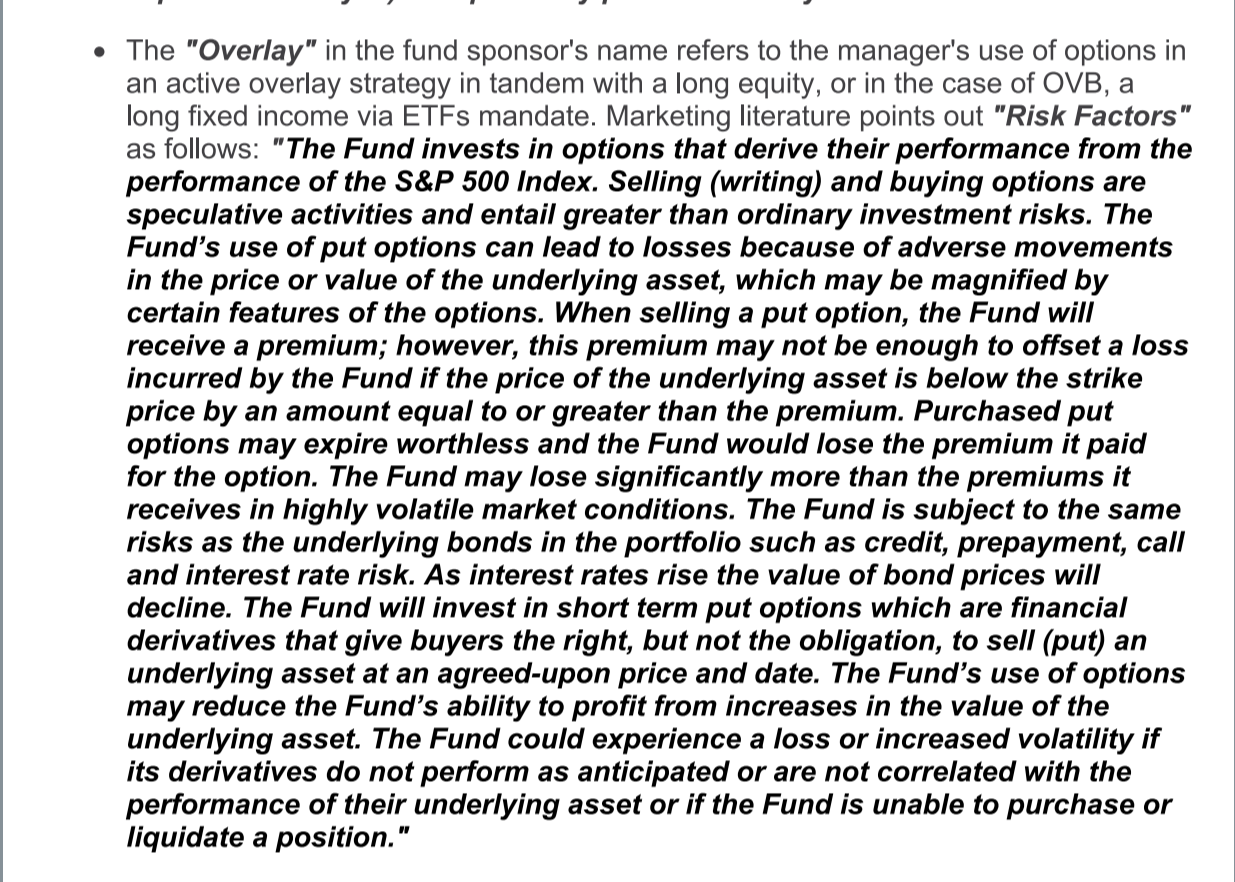
ETF/Index Options Trading Commentary

- VIX (VIX Index)** - "The Volatility of Volatility" known in trading circles as "Vol of Vol." was rather low last week as compared to previous weeks in March, with the VIX closing the week well off of its 52-week high of 85.47 from 3/18/20 at 65.54. As we pointed out last week in this piece, the prevalent theme in VIX options trading has been downside put buying in options dated a month or two out, which contrasts markedly from the non-stop upside out-of-the-money call buying that we noted from late December through February in the marketplace. This theme mostly continued last week in VIX options with traders snapping up downside April 37.50 and May 40 puts, speculating on a continued drop in the VIX over the next several months from current levels. There was at least one instance of upside call buying in VIX last week in a good sized trade where May 70 calls traded 32,000 times last Wednesday with VIX trading in the mid 60s at the time but for the most part volumes were off last week in VIX options as compared to the frenetic pace of weeks prior. In trading related to the VIX put buying, May 20 put buyers appeared in VIXX (iPath Series S&P 500 VIX Short-Term Futures ETN) which looks like a trade speculating on not only a continued drop in volatility in the marketplace but also on the VIX futures curve going back to a condition of extended "contango" which has typically been the norm during most market conditions, with the exception of the past several weeks amid the Coronavirus-driven market selloff when it has been in "backwardation." The \$1 billion VIXX saw considerable outflows last week to the tune of \$841 million vacating the fund due to redemption activity so this downside put activity in the product jives with the fund flows we have witnessed recently.
- UUP (Invesco DB U.S. Dollar Index Bullish)** - In last week's recap we spoke of upside call buying in UUP involving April, June and September options amid a strengthening U.S. Dollar against other world currencies. The USD did a 180 degree turn toward the end of last week against world currencies however, with UUP dipping back to its 50-day MA and ending the week on a sour note. The options were not quite as active as in the previous week in UUP although the sentiment similar to what we pointed out in last week's recap, with bullish buyers of upside May 28 calls last Tuesday. YTD the \$786 million UUP has attracted a substantial \$556 million in new assets via creation flows.
- HYG (iShares iBoxx \$ High Yield Corporate Bond)** - On news of the Fed's involvement in a bond buying/ETF program, High Yield Corporate Bonds and other segments of the Fixed Income markets found their footing last week in many cases. In HYG, where the options order-flow has consisted of nothing but downside put buyers in recent weeks, we saw a sea-change of sentiment towards the end of the week with bullish buyers of upside April 82 calls (HYG closed at \$77.03 on Friday). Earlier in last week with HYG at significantly lower levels, there were some April put buyers present in the 64 and 58 strike puts which are now notably out-of-the-money given the late week surge in High Yield Bonds. Last week HYG reeled in more than \$1 billion via creation flows but YTD the fund has seen a net of about \$1.7 billion leave via redemptions.
- QQQ (Invesco QQQ Trust)** - Late week optimists showed up in QQQ, purchasing the April 200 calls 36,000 times last Thursday as QQQ surged above \$190 only to regress to close at \$185.30 on Friday. QQQ saw a substantial \$2.5 billion flow into the fund last week via creation demand (+\$6.7 billion YTD) so the options activity could certainly be related. The top weightings in QQQ are slated to report quarterly earnings as follows: 1) MSFT (11.70%, 4/29), 2) AAPL (11.29%, 4/28), 3) AMZN (9.53%, 4/30), 4) and 5) GOOG/GOOGL (5/4), and 6) FB (3.86%, 4/29).
- TLT (iShares 20+ Year Treasury Bond)** - In similar activity to that mentioned in this week's update call buyers were around in TLT once more as all segments of Fixed Income rallied throughout the week on news of the Fed involvement in a bond buying/ETF program. TLT finished Friday's session at \$167.70, its highest level since early March and bullish upside call buyers of April 175 and May 180 strikes were present early last week. TLT has seen a meaningful \$2.6 billion vacate the fund YTD but the recent call buyers seem to have different designs.

Cannabis Corner

- In last week's report we pointed to bullish sell-side analyst reports and sentiment in the "Cannabis Equity" space underpinned by the premise that product demand is high as some citizens might actually be hoarding Cannabis in these times of Coronavirus home-quarantined uncertainty. Whatever the case, the segment was easily one of the best performers across all equities last week with the biggest fund in the category in AUM terms MJ (ETFMG Alternative Harvest, \$505 million in AUM) surging 26.35% as did its smaller competitors.

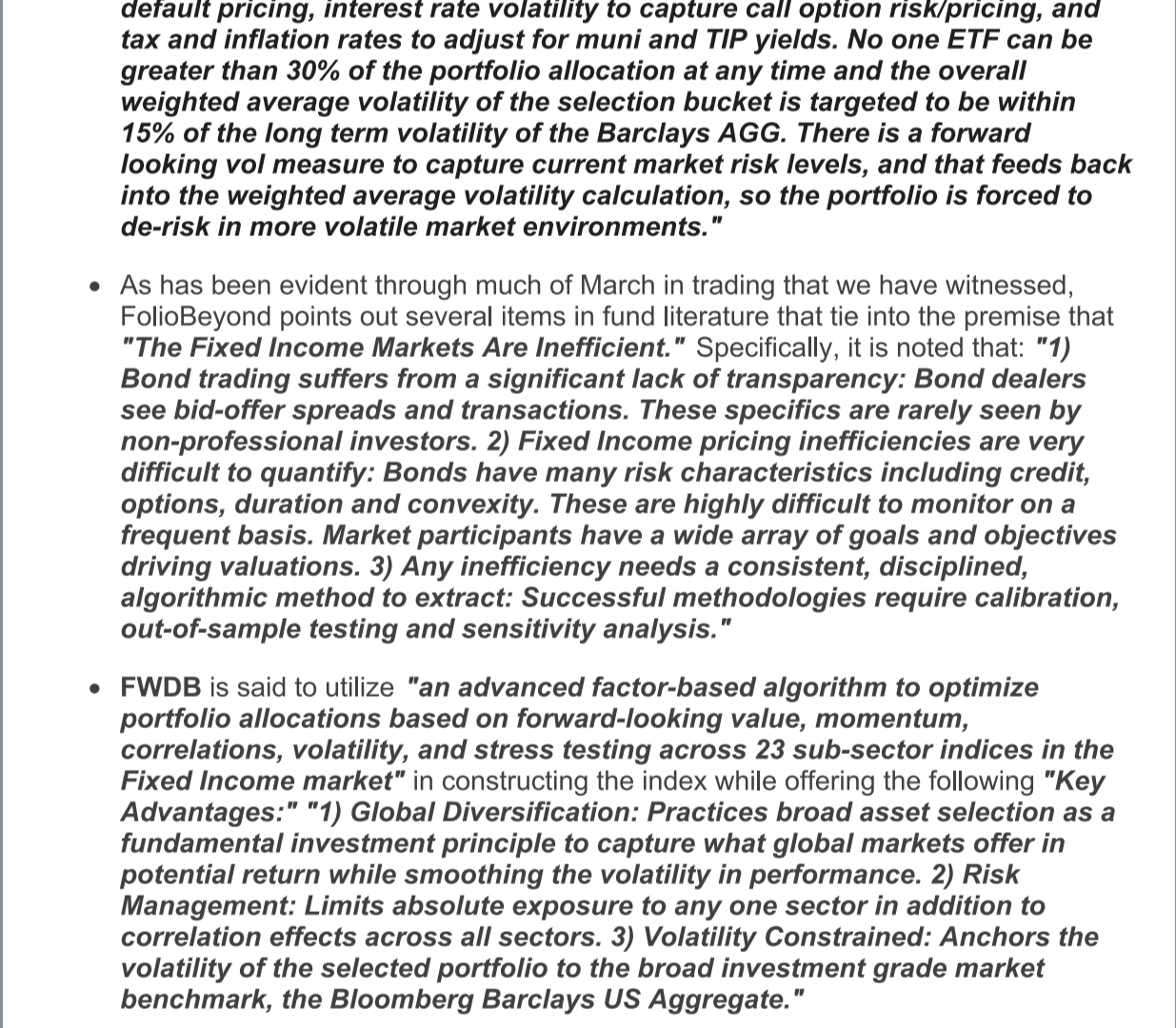
- MJ (ETFMG Alternative Harvest, \$505 million in AUM, 1.15 million shares ADV, YTD flows +\$14.4 million)**
- YOLO (AdvisorShares Pure Cannabis, \$34.3 million in AUM, 74,100 shares ADV, YTD flows +\$4.1 million)**
- MJJ (Inxx MicroSectors Cannabis ETN, \$24.7 million in AUM, 4,055 shares ADV, YTD flows \$0)**
- THCX (InnovationShares Cannabis, \$16.2 million in AUM, 58,600 shares ADV, YTD flows +\$7.5 million)**
- TOKE (Cambria Cannabis, \$8.5 million in AUM, 10,500 shares ADV, YTD flows +\$1.3 million)**
- POTX (Global X Cannabis, \$8.3 million in AUM, 22,900 shares ADV, YTD flows +\$5.9 million)**
- MJO (Inxx MicroSectors Cannabis 2X Leveraged ETN, \$6.2 million in AUM, 2,100 shares ADV, YTD flows \$0)**
- CNBS (Amplify Seymour Cannabis, \$3.7 million in AUM, 7,000 shares ADV, YTD flows +\$0.65 million)**



ETF Weekly "Pick Three"

#1) **OVB (Overlay Shares Core Bond, \$87.4 million in AUM, 33,370 shares ADV)**

- Debuted on September 30, 2019 along with four other ETFs from the sponsor, "Liquid Strategies LLC" and is presently the largest fund in an AUM terms in the firm's product suite (the second largest ETF is the \$51.9 million OVL (Overlay Shares Large Cap Equity).
- Fund marketing literature describes OVB as "An ETF that combines an index fund with an active overlay, designed to replace both passive and active portfolios benchmarked to the Bloomberg Barclays U.S. Aggregate Bond Index." Specifically, the fund's features are highlighted as follows: "1) Seeks to add incremental return with nominal change in risk. 2) Aims to increase capital efficiency. 3) Competitively priced and easy to use."
- The "Overlay" in the fund sponsor's name refers to the manager's use of options in an active overlay strategy in tandem with a long equity, or in the case of OVB, a long fixed income via ETFs mandate. Marketing literature points out "Risk Factors" as follows: "The Fund invests in options that derive their performance from the performance of the S&P 500 Index. Selling (writing) and buying options are speculative activities and entail greater than ordinary investment risks. The Fund's use of put options can lead to losses because of adverse movements in the price or value of the underlying asset, which may be magnified by certain features of the options. When selling a put option, the Fund will receive a premium; however, this premium may not be enough to offset a loss incurred by the Fund if the price of the underlying asset is below the strike price by an amount equal to or greater than the premium. Purchased put options may expire worthless and the Fund would lose the premium it paid for the option. The Fund may lose significantly more than the premiums it receives in highly volatile market conditions. The Fund is subject to the same risks as the underlying bonds in the portfolio such as credit, prepayment, call and interest rate risk. As interest rates rise the value of bond prices will decline. The Fund will invest in short term put options which are financial derivatives that give buyers the right, but not the obligation, to sell (put) an underlying asset at an agreed-upon price and date. The Fund's use of options may reduce the Fund's ability to profit from increases in the value of the underlying asset. The Fund could experience a loss or increased volatility if its derivatives do not perform as anticipated or are not correlated with the performance of their underlying asset or if the Fund is unable to purchase or liquidate a position."
- In terms of current holdings, presently OVB has a 99.96% to AGG (iShares Core U.S. Aggregate Bond) with the remainder of the portfolio lying in "Cash and Other."
- Like many Fixed Income ETFs, the product sold off hard during the market distress of mid-March, but has rebounded notably since then, crossing above and closing above its 50-day MA (\$25.12) last Friday.



#2) **FWDB (AdvisorShares Foliobond Smart Core Bond, \$7.6 million in AUM, 2,800 shares ADV)**

- 4-star Morningstar rated, FWDB debuted in June of 2011 but the present manager of the fund, "FolioBeyond" took over the managerial duties about 1 year ago on 4/1/2019. In this time period, the manager points out that the fund is "ahead of our category - US Fund Multisector Bond (Morningstar) - by 10.01%, 4.02% for the trailing 1 year vs -5.99% for the category. That puts FWDB in the top 6% of performance for the 103 fund groups in the category."
- In describing the investment process, the manager also illustrates the following: "FolioBeyond utilizes an advanced factor-based algorithm to optimize portfolio allocations based on forward-looking value, momentum, correlations, volatility, and stress testing across 23 sub-sector indices in the Fixed Income market. That means that we calculate expected FYTM's across the ETF sub-sectors adjusting for default probabilities, credit default pricing, interest rate volatility to capture call option risk/premium, and tax and inflation rates to adjust for muni and TIP yields. No one ETF can be greater than 30% of the portfolio allocation at any time and the overall weighted average volatility of the selection bucket is targeted to be within 15% of the long term volatility of the Barclays AGG. There is a forward looking vol measure to capture current market risk levels, and that feeds back into the weighted average volatility calculation, so the portfolio is forced to de-risk in more volatile market environments."
- As has been evident through much of March in trading that we have witnessed, Foliobeyond points out several items in fund literature that tie into the premise that "The Fixed Income Markets Are Inefficient." Specifically, it is noted that: "1) Bond trading suffers from a significant lack of transparency: Bond dealers see bid-offer spreads and transactions. These spreads are rarely seen by non-professional investors. 2) Fixed Income pricing inefficiencies are very difficult to quantify: Bonds have many risk characteristics including credit, options, duration and convexity. These are highly difficult to monitor on a frequent basis. Market participants have a wide array of goals and objectives driving valuations. 3) Any inefficiency needs a consistent, disciplined, algorithmic method to extract: Successful methodologies require calibration, out-of-sample testing and sensitivity analysis."
- FWDB is said to utilize "an advanced factor-based algorithm to optimize portfolio allocations based on forward-looking value, momentum, correlations, volatility, and stress testing across 23 sub-sector indices in the Fixed Income market"; in constructing the index while offering the following "Key Advantages:" "1) Global Diversification: Practices broad asset selection as a fundamental investment principle to capture what global markets offer in potential return while smoothing the volatility in performance. 2) Risk Management: Limits absolute exposure to any one sector in addition to correlation effects across all sectors. 3) Volatility Constrained: Anchors the volatility of the selected portfolio to the broad investment grade market benchmark, the Bloomberg Barclays US Aggregate."
- Being an ETF fund of funds, currently FWDB's holdings are: 1) SHV (iShares Short Treasury Bond, 3074%), 2) SHY (iShares 1-3 Year Treasury Bond, 28.01%), 3) AGZ (iShares Agency Bond, 18.02%), 4) TIP (iShares 0-5 Year TIPS Bond, 9.46%), 5) SJNK (SPDR Barclays Capital Short Term High Yield Bond, 7.16%), 6) BKLN (Invesco Senior Loan, 1.64%), 7) Cash Component (1.51%).

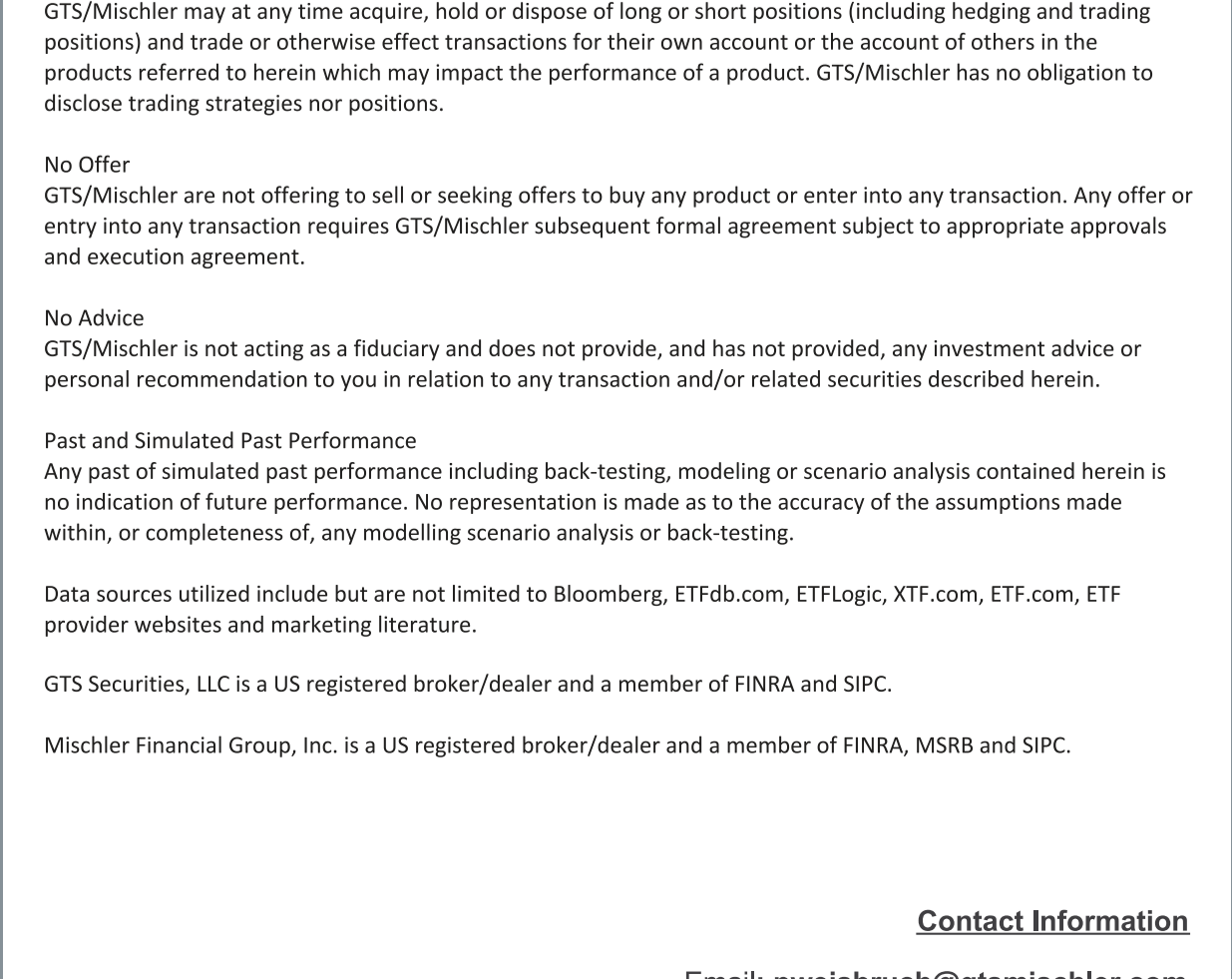


#3) **BMLP (Dorsey Wright MLP Index ETN, \$13.9 million in AUM, 24,500 shares ADV)**

- There are presently 16 ETPs in the "MLP" space in the U.S. listed landscape, which is one of the hardest hit segments of the equity market with year-to-date returns in most cases down in the range of 50% to as much as 75% depending on the particular product and strategy.
- BMLP is the 12th largest in terms of AUM size in the category at \$13.3 million in AUM. The largest fund in the category is the \$2.8 billion AMLP (Alerian MLP)
- BMLP is unique in that it utilizes a modified equal-weighted methodology in the MLP space which differs from most of the ETPs in the space which are market capitalization weighted. BMLP was launched in partnership with Dorsey Wright, a firm well known for their investment approach that is centered around technical analysis and particularly the "momentum" factor.
- REXShares whom handles the distribution of BMLP (an ETN backed by BMO Financial Group) notes "While it's been a brutal YTD for MLPs we are pleased to see BMLP as the top performing MLP product (ETF or ETN) that has a full exposure to MLPs. EMLP, like MLPX, has <25% MLP exposure at all times to allow them in a '40 Act wrapper."
- Currently top holdings are as follows: 1) NS (7.29%), 2) PAA (7.10%), 3) DCP (6.97%), 4) GEL (6.81%), 5) ET (6.67%), 6) MMP (6.61%), 7) MPLX (6.60%), 8) ENBL (6.60%), 9) HEP (6.58%), and 10) ARLP (6.58%).



GTS/MISCHLER Lead Market Maker ETF Issuer/Sponsor Partners



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