IPS STRATEGIC CAPITAL

IPS Volatility Hedge—Oct 2020

Strategy Objective

The IPS Volatility Hedge is designed to define the cost of a hedge and has proven to be extremely effective in market crashes.

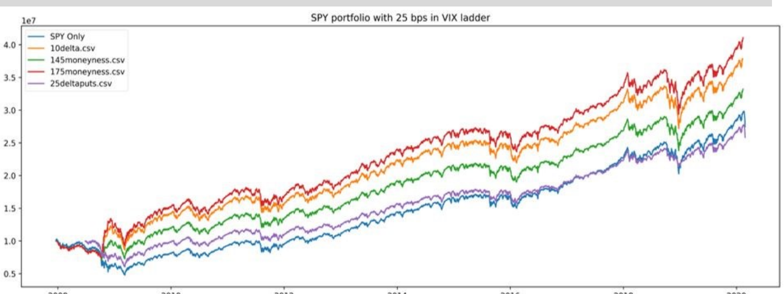
Key Characteristics

- Very low carry cost
- Defined monthly cost spent on the hedge
- Exponential Beta response on hedging a market tail event
- Available in IRA's and Qualified Accounts
- Implement as an SMA with very competitive management cost
- Eliminates the need to hold ineffective debt as a hedge
- Able to allocate 97% of the portfolio to alpha generators

Strategy Information

Inception Date: 2008

Annual Returns: IPS and SPY Portfolio in VIX Ladder



Risk & Return Summary (Since Inception)

	SPY Only	10 Delta	145 Moneyness	175 Moneyness	25 Delta Puts
Sharpe	0.43	0.69	0.65	0.69	0.53
Sortino	0.51	0.92	0.87	0.95	0.64
Max Drawdown	-53.37%	-29.92%	-29.18%	-30.98%	-40.26%

An Allocation to VIX calls has proven effective in large drawdown periods and can be accomplished by spending a relatively small defined percentage of capital when the hedge is not needed.

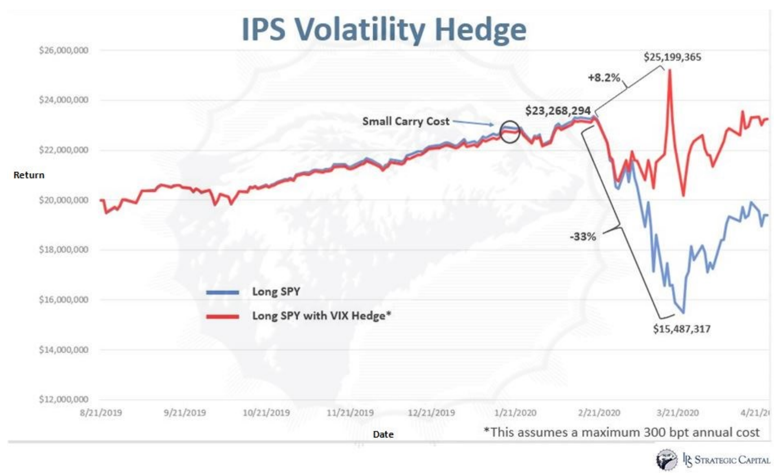
A fixed set of rules from empirical data with the goal of optimizing ex-post the money-ness and expiry of VIX call options over a market cycle has shown ex-ante to prove effective.

The systematic purchase of properly placed VIX calls tends to provide sufficient protection in tail risk events for minimal cost when hedging is not needed. As spot VIX is not directly investable, this strategy considers the benefits of a long exposure to VIX call options from VIX futures that are investable.

Performance Summary

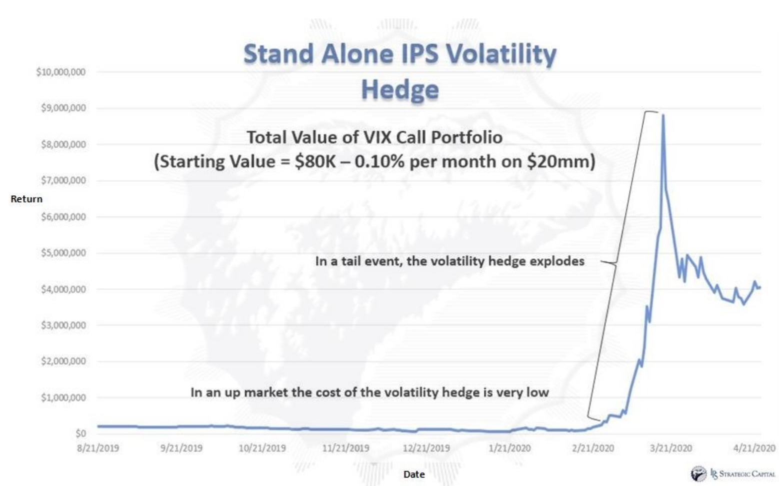
8.21.2019- 4.30.2020	S&P 500	S&P 500 + Volatility Hedge	Volatility Hedge
Return	-4.04%	16.2%	+301%
Max Drawdown	-33.44%	-0.88%	-20%
Peak Return	16.48%	25.92%	1424.38%

The IPS Volatility Hedge is designed to define the cost of a hedge and has proven to be extremely effective in market crashes. The graph below shows how a de minimis allocation to the IPS Volatility Hedge in a 100% long portfolio would have resulted in a total portfolio value return of over 14% at the March 2020 bottom.



*This assumes a maximum 300 bpt annual cost

These graphs show how just a small allocation of the IPS Volatility Hedge into a 97% long portfolio can dramatically hedge downside risk with almost no carry cost.



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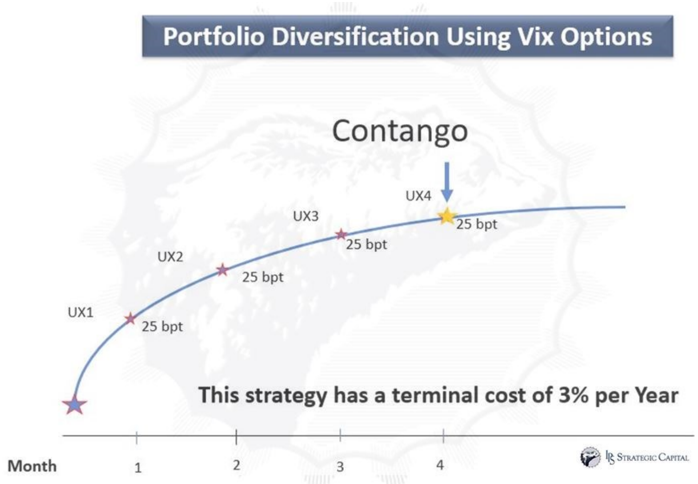
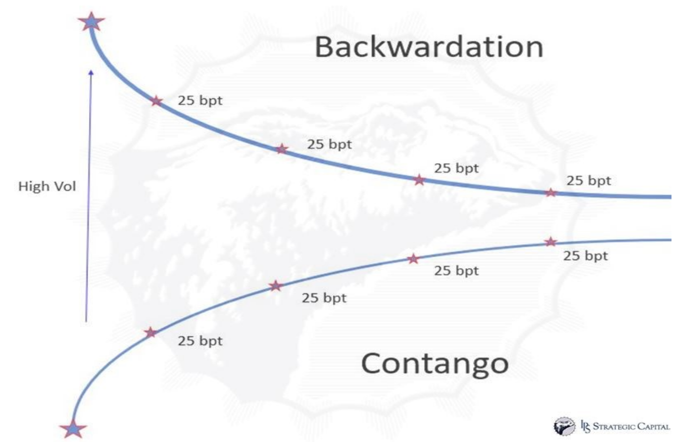
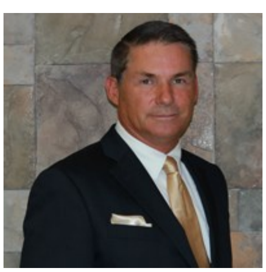




The conceptional idea of the IPS Volatility Hedge is by systematically allocating VIX call options along the horizontal skew can minimize the roll cost and be extremely effective when the term structure moves from Contango to Backwardation.

By allocating an equal dollar amount of VIX calls along the 4 month term structure, creates a netting effect where in contango my roll cost is very low, and in backwardation my long dated VIX calls are very cheap. Essentially we are buying a 4 month VIX option every month and letting the near term option expire or monetize depending on the market.



Dominick Paoloni, CIMA

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CIO & Founder

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TD Ameritrade Trading Panel

OIC Advisory Council

Managing Principal and Chief Investment Officer of IPS Strategic Capital, Dominick Paoloni has served the investment community for over 35 years. Dominick received his Certified Investment Management Analyst (CIMA®) through the Wharton School of Business and completed the College for Financial Planning's CFP certification program.

Dominick is an Adjunct Professor at the University of Denver, and University of Colorado Denver, he is a published author in a plethora of financial magazines including an academic white paper published through the Journal of Financial Consultants. Dominick frequently lectures throughout the country and internationally on the real-world use of derivatives in risk-defined money management.

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*This information is derived from ex-post data using hard rules since 2008.