



Basis Points – August 20, 2019

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Above the Fold

Volatility Doesn't Mean Doom

Last week's action can seem a bit unnerving as stocks gyrated hundreds of points, but believe it or not, volatility is quite normal and remains relatively low when you step back and look at the big picture. Much of the year has been filled with typical, dare we say boring movements in the S&P 500. And while these volatile days get our attention, they tend to be the minority and are perfectly normal in the grand scheme of things (just ask your neighborhood statistician). Professional traders know this well, and often use moments of panic to take advantage of unnerved investors.

Case in point... the VIX, the Chicago Board Options Exchange's popular volatility index, traded at nearly 23 last week, close to the highs for the year. But this "scary" spike that made headlines, may not have been justified.

To keep things simple, volatility is usually expressed in percentage terms. A VIX reading of 24 implies a high probability that the S&P 500 should move 24% up or down (or a combination of both) over a year's time, or more than 1.5% per day! In short, real 24% volatility would make for a much more lively market than what we have.

After crunching the last three months of data, the standard deviation (normal movement) of the S&P 500 was 0.94% per day, which would equate to a VIX closer to 15. That might explain why the VIX collapsed to 17.5 by Friday.

The bottom line is that we shouldn't let moments of irrationality impact our long-term resolve as investors.

Three Things

1. *Sell Gas, Buy Turbines!* – With wind power costs plummeting, a recent report by the U.S. Department of Energy revealed that it's cheaper to build and operate a wind farm than a natural gas plant for electrical generation. Federal tax credits helped the equation.
2. *This AI Device May Save Lives* – A new device, driven by artificial intelligence called the "Coral Manta," may help prevent drowning. Equipped with a camera and detection equipment, the floating sentinel is solar powered and can alert parents or loved ones to potential danger with an alarm onsite, and through an app.
3. *Cape Cod's Shark Problem* – What once may have been the stuff of Hollywood horror, beachgoers and residents of Cape Cod are now facing a record number of sharks. With several hundred sightings, July marked the highest number ever for the predators. Attacks and close calls have become all too common, with many forced to simply stay out of the water.

Did You Know?

What if Your Bank Paid YOU to buy a House? – This might sound crazy, but banks in Denmark are doing just that, and several nations aren't far behind.

Jyske Bank A/S is currently offering a credit of 0.5% (-0.5% rate) on 10-year mortgages, while Nordea Bank Abp will stretch your loan out to 30 years for a rate of just 0.5%. It might be hard to imagine, but as interest rates invert globally, the all-important mortgage gets an unexpected benefit.

Mortgages in France can be had for less than 1.4%, while Japan's 10-year notes are nearing record lows of 0.53% from Sumitomo Bank. Even Greece, whose debt crisis triggered the last global panic after the Great Recession, is offering 30-year mortgages around 3%, 0.6% cheaper than the average here in the States.

Nigerians, unfortunately, aren't getting great deals on home loans. Massive inflation has pushed the average 30-year mortgage upwards of 30%.

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