The Sky is Falling, The Sky is Falling: What to Do Now

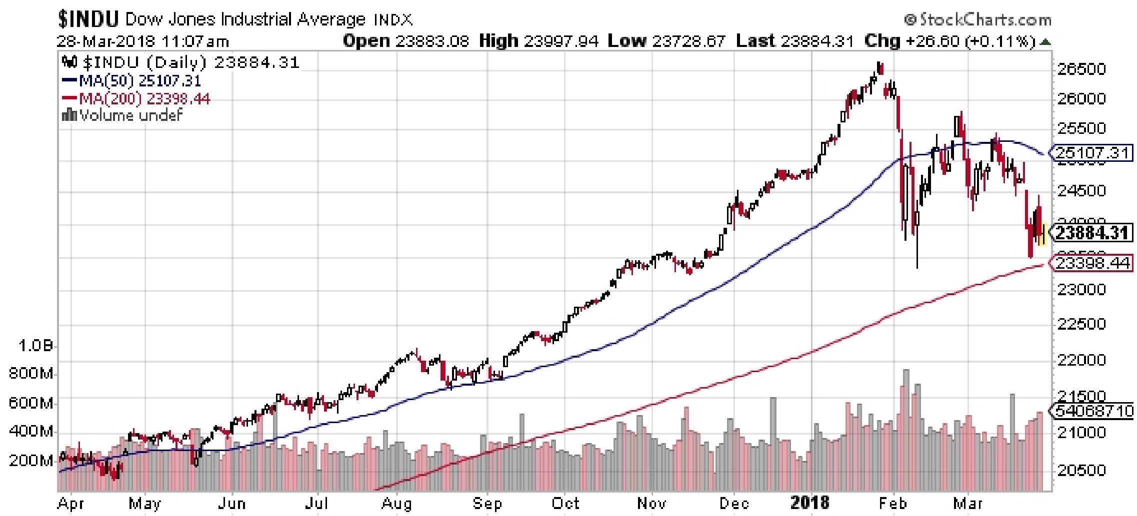
One of the worst things any trader can do is leave their portfolio unprotected.

But that’s exactly what has happened to many, especially those that never heeded the warning signs that we’ve often pointed out here.

Hopefully, they’ll learn from their mistakes, though.

Fact is market volatility has been severe the past few months.

After watching the Dow Jones Industrials explode from 24,809 to a high of 26,616 in January, the bottom started to fall out on February 2, when the Dow fell 665 points. The Dow plunged 1,175 points on February 5 and 1,032 points on February 8. On March 1, the Dow dropped another 420 points. Then, on March 19, the Dow fell an additional 400 points, wiping out nearly all of the gains picked up for 2018 in January.



Most of that came as a result of trade war fears.

But the fallout was far from over.

On Thursday, March 22, the Dow plummeted 724 points. It sank another 400 points on Friday, March 23. *"A global trade war, whether it's real or perceived, is what's weighing on the market,"* explained Ian Winer, head of equities at Wedbush Securities, as quoted by CNN. *"There's this huge uncertainty now. If China decides to get tough on agriculture or anything else, that will really spook people."*

Friction between the two nations is a big deal because both are huge players in the world economy. China is a key buyer of U.S. crops, especially soybeans, and the U.S. is a major buyer of Chinese goods. Any slowdown in either economy could put a damper on what has been a bright economic outlook.

Then, out of the blue, all was fine.

All of a sudden the press mentioned a trade war could be averted, as China and the U.S. work to work out their issues. As a result, the Dow soared more than 600 points in a day.

But it was nothing more than bull trap.

The next day, the Dow fell another 700 points. To swing thousands of points like this is enough to make the sanest trader insane.

But those that were prepared for the potential did just fine, as we were.

However, even if there is a near-term market recovery, volatility will persist.

Especially as we head into the November 2018 midterm elections…

History tells us that:

- Ahead of the midterm elections in 1990, VIX jumped from 16 to 36
- Ahead of the midterm elections in 1994, the VIX jumped from 11 to 18
- Ahead of the midterm elections in 1998, the VIX jumped from 16 to 45
- Ahead of the midterm elections in 2006 and 2010, the VIX fell
- Ahead of the midterm elections in 2014, the VIX jumped from 12 to 40

So, as we can clearly see midterms can create a volatile mess. Assuming we could see a repeat ahead of the 2018-midterm elections, we can potentially profit by using the following:

- Buy to open the VIX July 18, 2018 22 call options
- Buy the iPath S&P 500 VIX Short-Term Futures ETN (VXX)
- Buy the Pro Shares VIX Short-Term Futures ETF (VIXY)

It just makes sense to protect your money from volatility.