

Three Ways to Trade Volatility Ahead of Midterm Elections

Not long ago, we issued marijuana trades.

On July 4, 2018 for example, we recommended Canopy Growth (CGC), as it traded at \$30. It's now up to \$48.30. Consider selling half to secure the win.

On August 22, 2018, we recommended Tilray Inc. (TLRY), as it traded at \$37.50.

TLRY is now up to \$115.31 for a potential win of 207%. Exit half of this trade, as well.



While we can sit here and pat ourselves on the back, let's just move on to the next trade idea.

Midterm Elections: Volatility is Likely to Spike

If the Republicans retain leadership, we're greatly optimistic we could see 35,000 on the Dow Jones Industrials. In fact, some argue that tax reform is likely to leave many Republicans relatively unscathed in 2018, and perhaps put them on solid ground by 2020, too.

Especially if tax reform fuels further economic boom...

Granted, the press has warned of a 2018 "bloodbath" for Republicans.

Politico suggested for example that the midterms could be "the worst" in history for them. The Hill has predicted that November midterm elections are the Democrats' "best chance in years to win back House."

The Washington Post has said the White House is “poorly positioned to handle the tough 2018 political landscape,” adding, “The president has been informed by aides and friends that if he loses the House in 2018, not only would Democrats almost certainly begin impeachment proceedings against him, but his entire legislative agenda would be imperiled, making any 2020 reelection bid far more challenging.”

But let's not get ahead of ourselves.

The only certainty in the midterm elections is a likely increase in volatility. History tells us that.

- Ahead of the midterm elections in 1990, the Volatility Index (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 November 21, 2018 13 calls
- Buy the iPath S&P 500 VIX Short-Term Futures ETN (VXX)
- Buy the Pro Shares VIX Short-Term Futures ETF (VIXY)

The last time we spoke about such opportunities was in early January 2018.



We recommended the following trades:

- The VIX July 18, 2018 13 call options, which ran from \$3.40 to a high of \$7.25
- The VIX Short-Term Futures ETN (VXX), which ran from \$26.35 to a high of \$56.50
- The VIX Short-Term Futures ETF (VIXY), which ran from \$21.84 to a high of \$46.84

Once we near the midterms and the volatility and uncertainty begin to die off, we can begin to look at more long opportunities using call options and ETFs on the major indices.