Credit Suisse Promises You a Total Loss

My thanks to Hank Greenberg for revealing an example of what’s wrong with some areas of Finance. The VelocityShares Daily 2X VIX Short-Term ETN (TVIX) is an exchange-traded note issued by Credit Suisse. Its travails and those of its investors are well covered elsewhere. It’s been a bust, as befits a vehicle designed to provide leveraged exposure to movements in the VIX (an index of S&P500 volatility). The idea that taking positions in the VIX has any utility to begin with is emblematic of the misplaced focus on using leverage to increase returns and then hedge temporary adverse market moves. It doesn’t help move savings to productive types of capital formation, but is instead part of a big casino.

But that is a point for another day. I am reading from the TVIX prospectus, as pointed out by Mr. Greenberg, the stunning disclosure language:

“The long term expected value of your ETNs is zero. If you hold your ETNs as a long term investment, it is likely that you will lose all or a substantial portion of your investment.”

Now this is legal. The SEC apparently pointed out to Mr. Greenberg that they don’t approve the investment merits of securities issued. But what about Credit Suisse? How do they get comfortable issuing a security to the public that they believe will go to zero? Where’s the judgment? What is the point? If you sell a two-legged stool to customers with a warning that they’ll fall off, does that absolve you of responsibility? If you’re a private banking client of Credit Suisse and have entrusted your wealth to them, are you supposed to ignore this window into their values?

Credit Suisse has not broken the law. TVIX represents one element of their activities in the strange world of finance. It is part of their brand. They should be judged accordingly.