

Canaries In The Coalmine Are Telling Us It Is Time To Own Both Tails

By Vineer Bhansali | July 13th, 2026

The following article was published [here](#) on forbes.com

A theme that I have been rolling around in my head this year is one of an impending, sharp and sudden regime shift. I wrote in January about the “[Year of the Fire Horse \(2026\)](#)” promising to deliver some out-of-the-ordinary events, and so far, it has not disappointed. This postulated regime shift, to be clear, does not have to be a crash, or a “melt-down”. It could very possibly be a “melt-up” first. But either of these possibilities suggest that this is a great time to own both the left and right tails, especially since the tails are priced so cheaply in the options markets.

Since I have been in the markets for almost 35 years now, I have started to pay attention to little “anomalies”, or “canaries in the coalmine”. One of these phenomena that has recently caught the attention of professional option traders is the persistently high implied volatility of longer dated options on stocks like SpaceX (SPCX) and Micron Technology (MU), amongst others. Never in my experience have trillion-dollar companies shown long dated options volatilities that are this high. Since options on these companies are trading in the listed markets out to December 2028, they provide a great laboratory for both opinions and models.

Let’s start with an example. As my friend Dean Curnutt of Macro Risk Advisors recently pointed out, the price of a 2500 stock call for December 2028 expiry, which is two and a half years away, is about 280 points, or 28% of the current value of the stock, which is at 975 as of this writing (July 10, 2026, Source: Bloomberg). The 2500 strike is more than twice the current stock price; i.e. the stock has to go up about 150% by 2028 before the option gets to the strike, and another 28% to start breaking even. You actually don’t make any money on this call option until the stock gets to 2800! At that price, Micron would be worth about 3 trillion dollars, which is not improbable, but requires quite a perfect short squeeze for memory prices. The majority of the option’s price comes from the fact that the implied volatility is about 85% (using a Black-Scholes option model). Even though the strike price of 2500 is more than 2.5x away, the “delta” of this option is 0.50; i.e. due to the very high implied volatility the market is pricing as if there was a 50/50 chance of the stock ending up more than doubling. A little strange, one would have to agree, but entirely a function of the assumptions of Black-Scholes, the workhorse of modern-day option traders. But before we go out and say the market

is nuts and short this option (by the way that could be the correct conclusion), we should dig deeper into the assumptions.

Black-Scholes assumes a “unimodal”, normal (“Gaussian”) or bell-shaped distribution of price returns; i.e. one with just a single hump and tails to both sides. The input volatility is simply the number; i.e. the annualized standard deviation of returns that gives us back the market traded price. But what happens if we step outside of the unimodal world into a regime dependent “bi-modal” world, where there are two different possible, extreme outcomes?

Suppose there are two possible binary outcomes – in the first one the stock has a “good state” return of 200% (i.e. it triples from current value), and in the second the stock has a “bad state” return of minus 50% (i.e. it falls back to half its value). Let us also assume that in both cases the stock’s distribution has a volatility that is the same, around 50%. When we “mix” these two states, the total volatility of the mixture, with two humps, turns out to be about the same as the observed Black-Scholes volatility of 85%! But note that this volatility has emerged not from the volatility of the two modes being high, but because the expected returns in the two states are so different. This is a hallmark of events coming to a regime shift - volatility starts to rise as we come close to an inflection point where we can fall over into a different regime with a different mean.

One way to interpret this high long-term volatility is that the current options market consensus is a mixture of a boom and bust mixture of possibilities. When the expected returns in two states is very different, we can get a large contribution to the mixed state volatility from what is called “mean-shift” variance. For the wonks, this difference in expected returns also contributes to the skewness (i.e. asymmetry of payoffs) as a cubic power, and kurtosis (i.e. the “fat-tails”) as a quartic (power of 4!) to the kurtosis.

When the expected returns are very different in two different types of states, the math basically says that the probability distribution looks nothing like a normal, bell-shaped curve that underlies Black-Scholes. From the view of investors looking at large outsized, lottery ticket type of gains, this is exactly the profile that could deliver huge, life-changing returns. Lots of volatility, large right-tail asymmetry, and fat tails. It is no wonder then that many of the biggest winners when it comes to retail inflows have been levered single stock ETFs on Micron and SK hynix. One could argue that if you can obtain high volatility, high positive skew and fat- tails, then you should lever it up to the max. Which is exactly what retail has been doing. Of course, any misestimation of the probabilities or the payoffs in the binary states can decimate this investment due to the other, not so friendly side of leverage.

The point of this exercise is to illustrate that once we remove the obscuration of Black-Scholes, we see that the market’s pricing of these longer dated options on Micron and other stocks is not a

mispricing per-se, but more a reflection of the fact that (1) there is a lot of uncertainty in the two outcomes, and (2) the returns in two outcomes are very different. By the way, this applies to SpaceX (SPCX) as well. We simply do not know whether the two outcomes (travel to Mars, space-based AI compute etc., or busted dreams) is more likely than not, and the consequences in either state are completely different than the other state.

The last time this type of phenomenon happened was back in the dotcom bust. Then, (and yes, I was also around at the time, and I had authored a piece on “Stocks as Lotteries” for Bill Gross at PIMCO) Mark Cuban famously sold a covered call against his \$1.4 billion restricted Yahoo stock and purchased an out-of-the-money put. When the market cratered a few weeks later, he was protected. Billions saved (and made), to be spent on the Dallas Mavericks basketball team and Shark Tank pitches, among other investments. While it is probably different this time, one could argue that the structure of the volatility markets today is indicating something brewing. For sure, as trillion dollar companies come to market, the temptation to “hedge” using these types of protective collars will be large for holders of restricted stock, and indeed I have entertained some inquiries to this effect. Now that SPCX options are trading, the price of a 2.5 year SPCX \$135 strike put (at the IPO price), is the same as the price of a \$225 strike (the all-time high) call. Let me say that again: you can sell a \$225 strike call to pay for a \$135 put to do the “Cuban trade” (all data as of July 10, 2026 from Bloomberg). It is, of course, not as simple in practice, since selling a call requires putting up a lot of margin and also requires being subject to short-squeezes where you might have to deliver stock you don’t own. So naïve hedgers beware!

The whole point of this example, however, is to show that volatility markets in single stock options are already pointing to regime shifts and bi-modality being priced in. If history is any reference, this bimodality may start to filter into other asset prices, including other assets. And when that happens, anything is possible, including macro markets. The time to own both tails is now, before the market makes the tails too expensive to own. This time don’t let Mark Cuban be the only one who benefits if the bad regime is the one that ends up being realized.

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