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Misconceptions about the VIX

There has been an overwhelming number of articles, comments, etc. about the current low level of the VIX. It is claimed that a low VIX is a negative signal, suggesting a dangerous situation, a financial crisis, etc.

Based on 25 years of history (as illustrated below), my conclusions are as follows:

The VIX is a bottom Indicator: it only gives a reliable signal when it rises to a high level and reverses.

The VIX does not signal an over-bought (overvalued) market, it only signals a over-sold (undervalued) market.

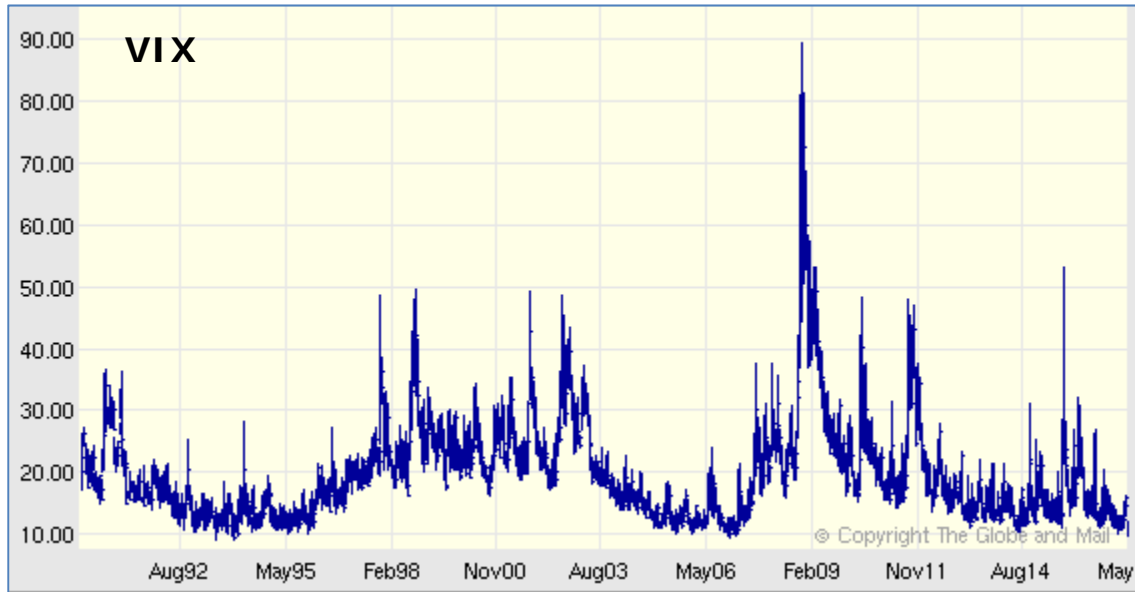
**A low VIX has no forecasting function.
The market can rise significantly while the VIX is at low levels.**

Look at examples at A, B, C, D and E on the weekly chart of the S&P 500 and the VIX.

A sudden rise in VIX followed by a quick reversal, have always signaled an important (and often a major) low in the market.

To put it another way, every one of these major lows (and many others) was preceded by a sudden rise, followed by a major decline in VIX.

Investors should follow the daily reading of VIX, to see a more accurate, precise and timely signal.



P.S. I am also on Twitter. Follow me @ronsBriefs.

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