The VIX Indicator
The Ultimate “Fear Gauge” For Beating the Crowds to Big Profits

It may be as cliché as it gets, but it’s true. Investors are motivated by two things and two things only: Fear and Greed. It’s just that simple.

So more often than not, they turn quite bullish when they think a stock is headed higher and quite bearish when they fear that all is lost. The trouble with this strategy though, is that for most retail investors, it is exactly at these extremes in sentiment that they often lose their shirts.

Because while conventional financial theory does suggest the idea that markets behave rationally, not accounting for the emotional aspect of the trade often leads to all of the wrong entry and exit points.

And believe me when I tell you this. It’s hard to turn a buck on the Street when you’re constantly getting either one or both of them wrong.

That’s why successful technical analysts often rely on the VIX indicator to assess whether or not the current market sentiment is either excessively bullish or bearish in order to plot their next move.

Make Better Trades Using the Fear Gauge

You see, the VIX is one of the so-called contrarian indicators. That is, it tells you whether or not the markets have reached an extreme position one way or the other. If so, that tends to be a sure sign that the markets are about to stage reversal.

The idea here is that if the wide majority believes that one bet is such a sure thing, they pile on. But by the time that happens, the market is usually ready to turn the other way.

Of course, as usual “the crowd” hardly ever gets its right. (So much for the rational market theory). So the smart money simply uses the VIX indicator as a sign to bet against them all.

If “the crowd” is feeling very bullish, in other words, it is definitely time to think about getting bearish.

It’s counter-intuitive for sure, but it works nearly all of the time-especially in volatile markets. And that’s why the VIX indicator is a trader’s best friend these days.

After all, if there is one way to describe today’s markets it would have to volatile.

So What Is the VIX Indicator?

Developed by the Chicago Board Options Exchange in 1993, the CBOE Volatility Index (Chicago Options: ^VIX) is one of the Street’s most widely accepted methods to gauge stock market volatility.
Using short-term near-the-money call and put options, the index measures the implied volatility of S&P 500 index options over the next 30 day period.

But because it is basically a derivative of a derivative, it acts more like a market thermometer more than anything else.

And like a thermometer, there are specific numbers that tell the market’s story.

A level below 20 is generally considered to be bearish, indicating that investors have become overly complacent. Meanwhile, with a reading of greater than 30, a high level of investor fear is implied, which is bullish from a contrarian point of view.

The smart thing to do then is to wait for peaks in the VIX above 30 and let the VIX start to decline, before placing your buy. As the volatility declines, stocks in general will rise and you can make big profits. You see it time and time again.

In fact, the old saying with the VIX is, “When the VIX is high, it’s time to buy.” That’s because when volatility is high and rising, that means the crowd is scared. And when the crowd is scared, they sell, and stock prices fall dramatically, leaving bargains for money making traders.

**The VIX Indicator in Action**

Here’s an example of how it works in the real world.

It comes from three recent reversals in the S&P 500-each one of them successfully predicted by the VIX using its 200 day moving average (DMA) as the basis of each move.

Take a look at the charts:
As you can see, every time the VIX either breached or touched its 200 DMA the S&P reversed and began to decline. And not surprisingly, each of those moves occurred when the index told us that fear levels were low.

Conversely, of course, both charts show that rallies ensued not long after the index spiked above 30, which represented times of great fear.

And for smart traders, each occasion was the equivalent of taking candy from babies, simply by betting against the “wisdom” of the crowd.

That’s why the VIX Indicator is so popular these days. So don’t trade without it.

After all, if there is one other thing that we know for sure about fear and greed it is that they never ever take a break.

Use them to your advantage.

Wishing you happiness, health, and wealth,

Steve Christ, Editor, Wealth Daily