



VIX Dispersion Narrows The Most Since January

Let me begin with this.... so far, the market hasn't cared about anything if it doesn't involve buying more Apple, Amazon, and/or Microsoft. The underlying weakness of market participation hasn't mattered, risk management has all but been thrown to the wayside. The S&P 500 is now trading 11.9% above its 200-day Moving Average, something it hasn't done since January 2018 before that impressive run in price peaked at a 14% spread above the long-term moving average and then corrected 10% lower. See chart below

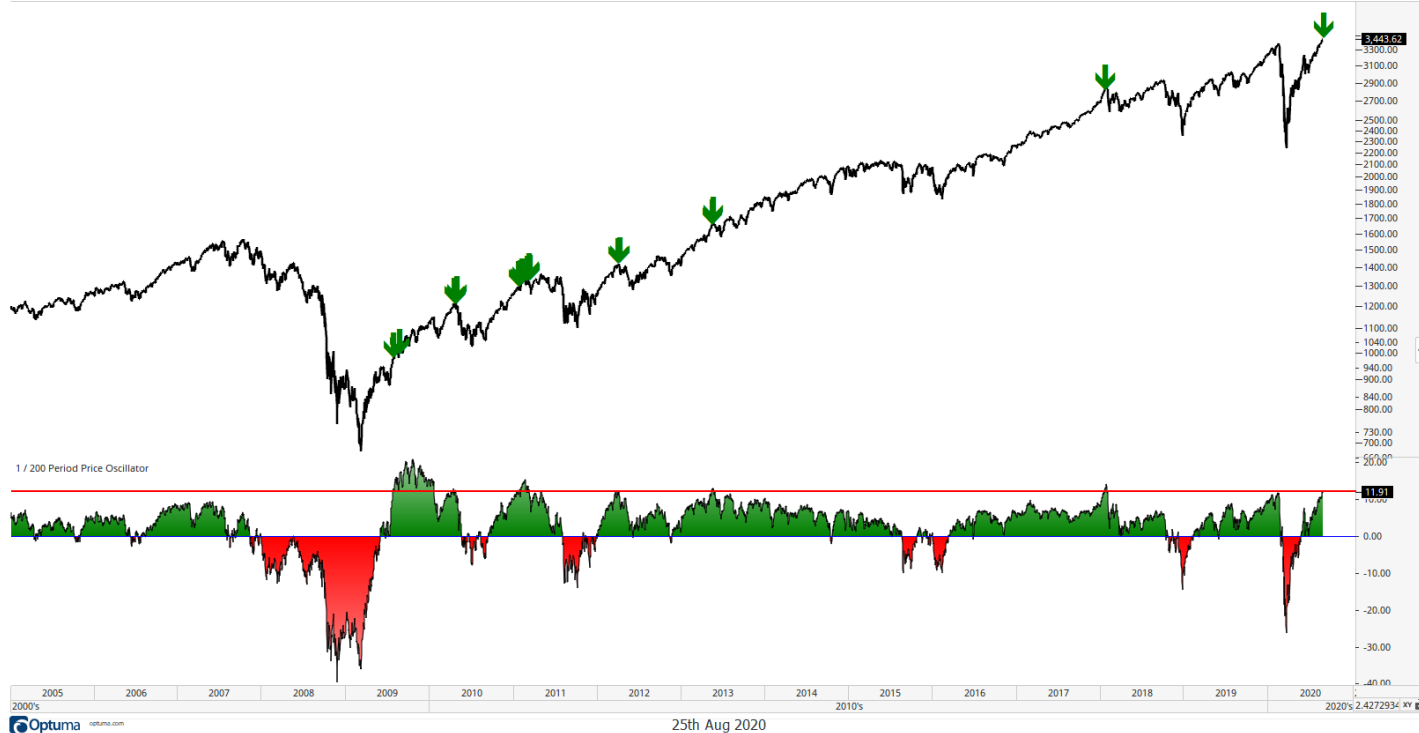
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S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



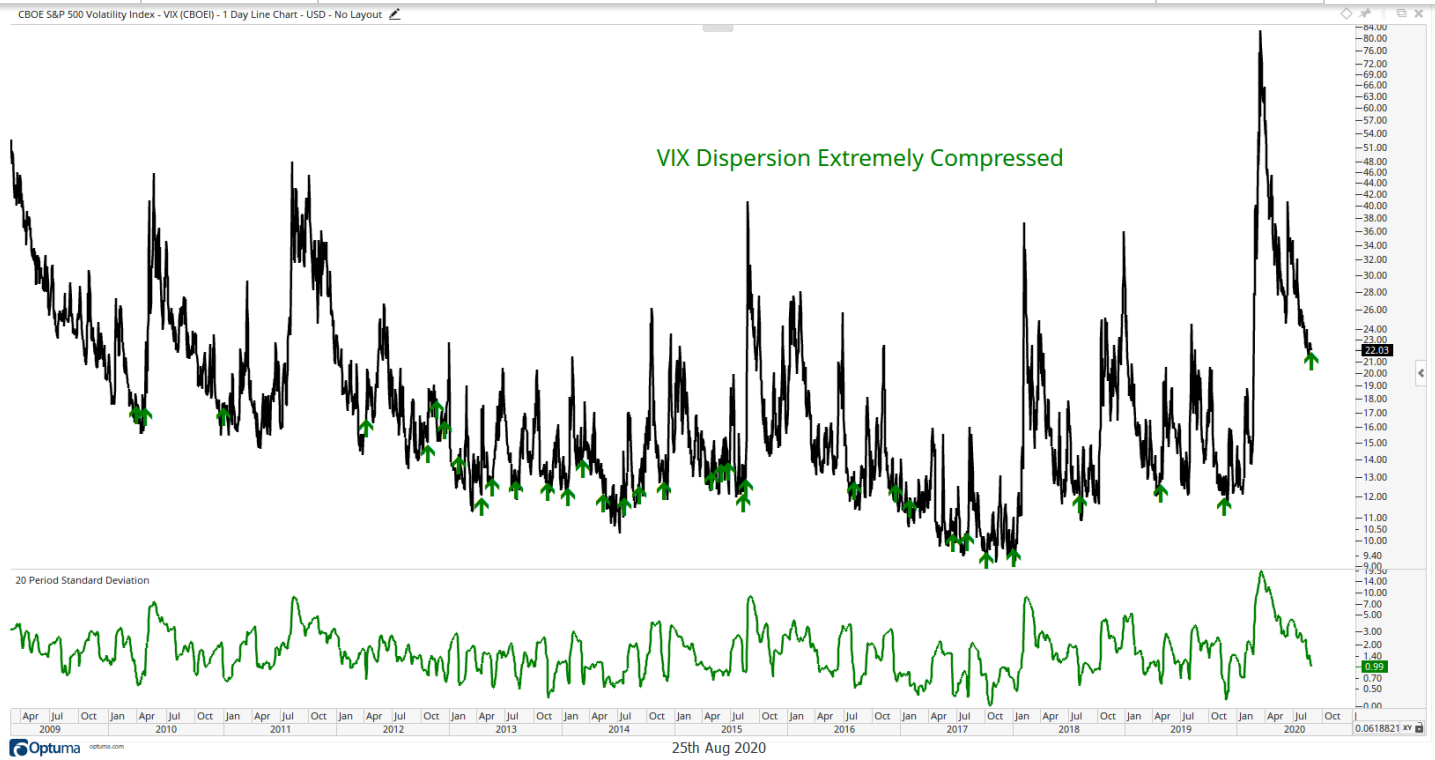
The primary driver of me starting Thrasher Analytics was after I won the Charles Dow Award for my paper, [Forecasting a Volatility Tsunami](#). I built the Volatile Risk Trigger (VRT) on the back of this concept, taking a unique spin on the original idea written my paper. In my paper I wrote of the 20-day standard deviation to be used to quantify the narrowness of dispersion within the VIX - **a sign of excessive complacency in the volatility market due to lack of movement in the VIX. We are now at a time where that dispersion has narrowed to the lowest level since January of this year**, several weeks ahead of the equity peak before the covid crisis. In fact, the current level of dispersion is at the 3rd percentile, the lowest since November of last year. The chart below shows when dispersion has been extremely compressed on both an absolute and percentile basis (green arrows). As you can see, a volatility often followed this type of setup.

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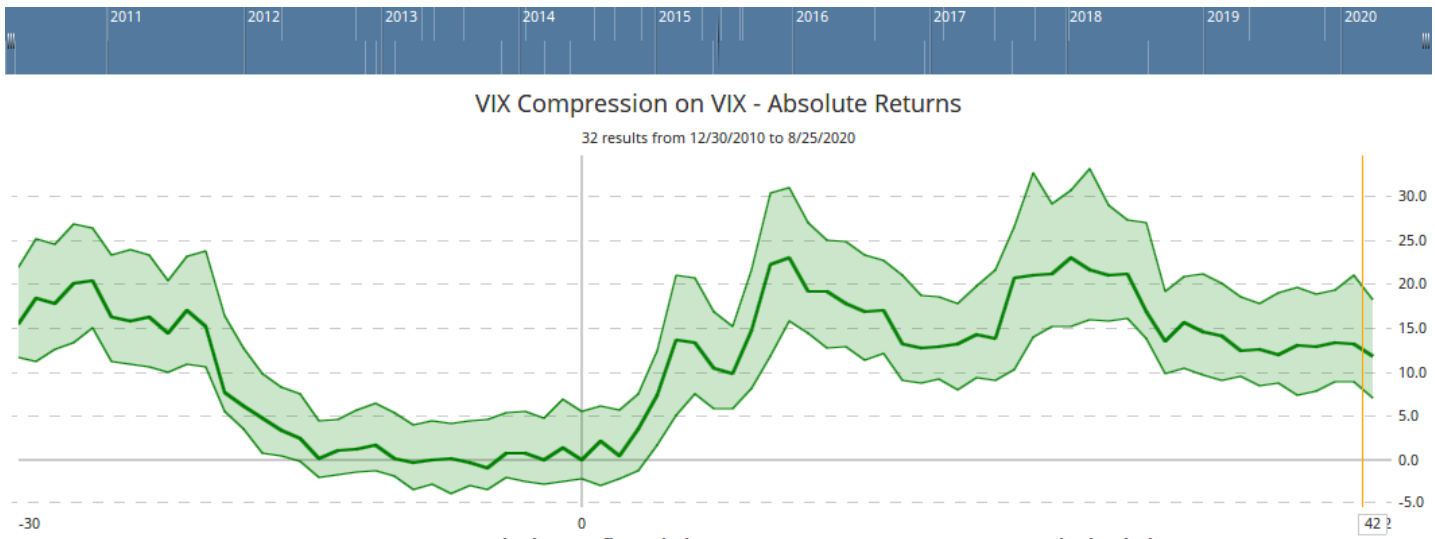
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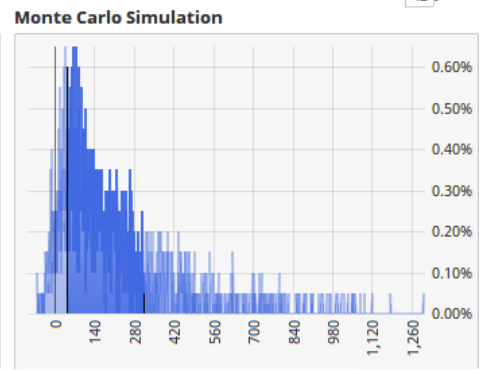
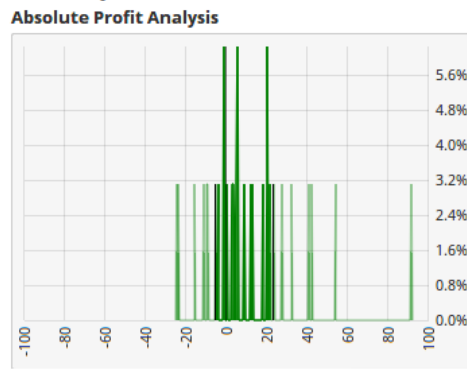
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Going back over the last decade, I ran a screen to show the 'response' in volatility after this type of setup, which has a sample size of 32. The chart below shows the VIX 30 days before and 42 days after dispersion compresses on average for each of those 32 occurrences. Typically, 10 days later the VIX was higher 74% of the time.



Statistics	Abs Signal	Index	MC Sim
Probability of Gain	67.74%		93.35%
Probability of Loss	32.26%		6.65%
Mean Return	11.79%		199.08%
Median Return	5.52%		138.99%
80th Percentile	23.27%		313.98%
20th Percentile	-5.03%		44.67%
Skewness	1.24		2.81
Kurtosis	5.36		17.24
Standard Deviation	23.89%		220.27%



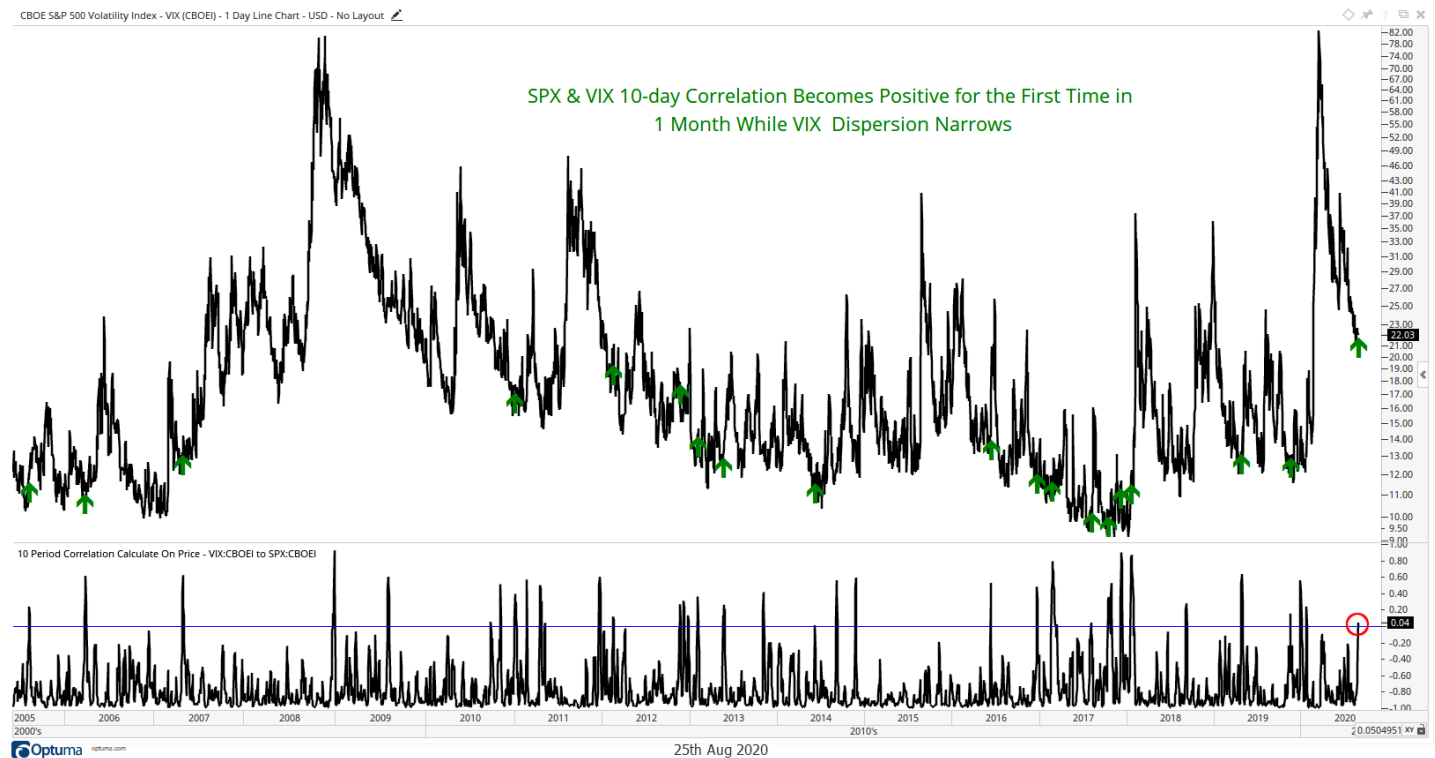
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positive correlation with the equity market. **This is the first time the 10-day correlation has been positive since before the covid crisis.** The green arrows on the chart show when correlation is positive and dispersion is narrow. As you can see, this doesn't happen very often, but has led to several large scale increases in volatility.



I show this not so imply or predict that as quick as tomorrow we will see the VIX rocket up to 40. The typing of these volatility events have historically varied from a few days to two weeks to play out. But as I showed above, three-fourths of the time the VIX was higher in ten days. What could cause vol to move higher? I have no idea; I'm not interested in trying to guess what a possible catalyst will be. My focus and the focus of Thrasher Analytics is to identify potential risks. Up until this point, several of the risks I've pointed out have been ignored by the market. Maybe this one will be too, but **I think it's still important to be aware of them and understand the historical presence as shown in the above charts when we've been in such an environment now ripe for a volatility spike.**

Best Regards,
Andrew Thrasher, CMT

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