



VOLATILITY RISK TRIGGER & PEAK SIGNAL SUMMARY



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The Volatility Risk Trigger (VRT) was developed by Andrew Thrasher, CMT and is a continuation from the research he conducted for his Charles H. Dow Award winning paper on market volatility. Mr. Thrasher found that there are several market-based “symptoms” that have often preceded large swings within the Volatility Index (VIX), which work as a composite within the VRT. The VRT is an adaptive system that is designed to uncover high-probability periods that lead to bottoms in volatility and are followed by large moves higher in the VIX.

While the VRT is not intended to be a trading system by itself, subscribers of Thrasher Analytics use the VRT as an early warning signal that can be incorporated into their own portfolio management process. That may involve protection of investment capital from potential equity market weakness or attempting to generate alpha from the forecasted rise in the Volatility Index.

The time between signals generated from the Volatility Risk Trigger can obviously vary, however each year typically sees several periods of substantial increases in the VIX, which are often preceded by alerts generated by the VRT. Just like the importance of being prepared for a rain storm by having an umbrella, investors can better prepare themselves for periods of high volatility by having access to the signals generated by the Volatility Risk Trigger.

Since the initial creation of the VRT, it's been changed and improved. This led to the creation of the VRT 2.0, which is the primary indicator used for volatility and is what the green arrows on the VIX chart that's shared each week are based on. However, the original VRT 1.0 is still shown in each week's letter in the bottom panel of the chart.

A signal by the VRT 2.0 doesn't necessarily mean the VIX is expected to spike higher right away. Typically we'll see volatility bottom and begin to slowly advance higher before seeing a major spike, if one were to occur. Many times the bottom in Spot VIX coincides with the VRT 2.0 signal which can have a week or two (sometimes less) advance of a possible major spike in volatility.

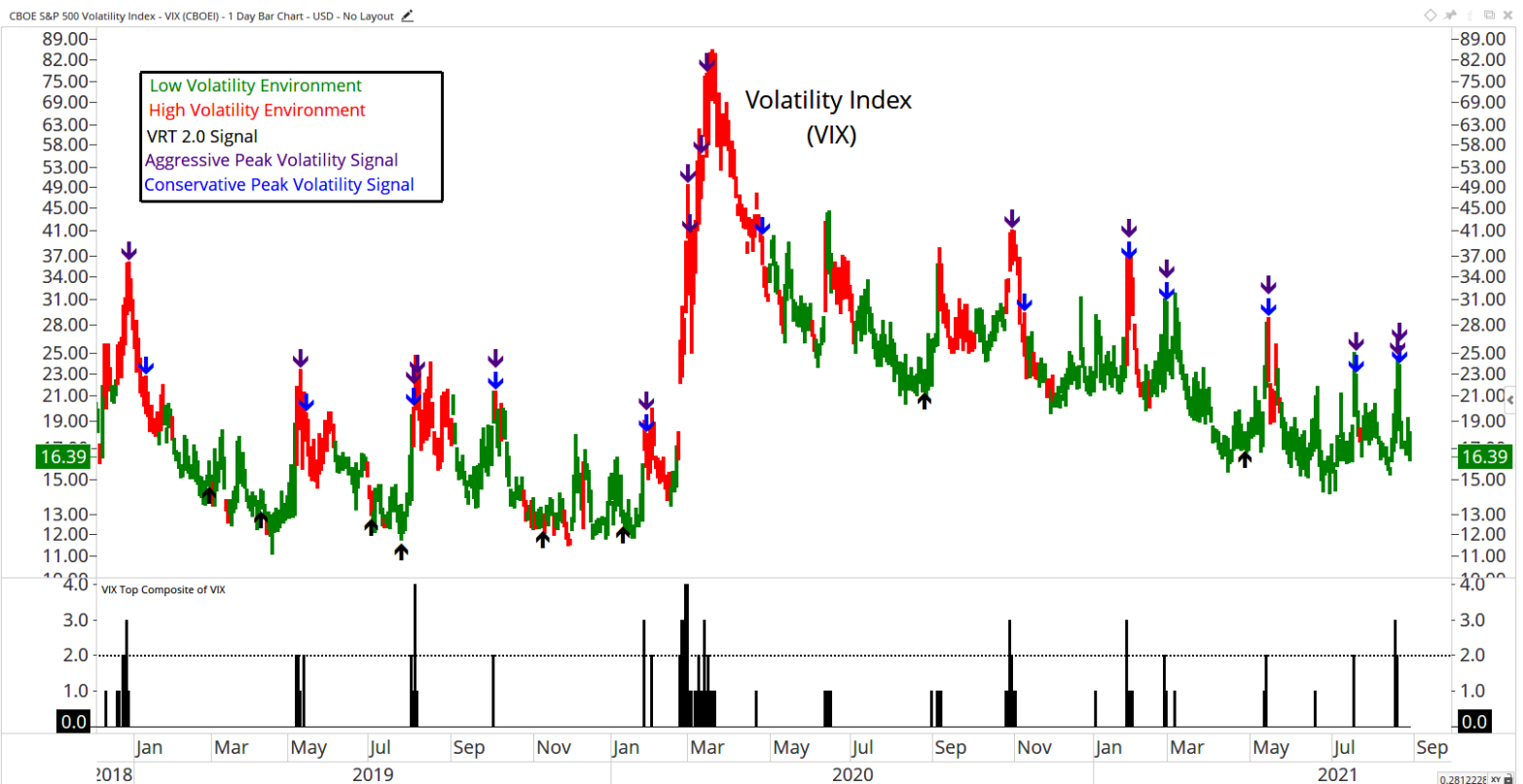


One of the newer editions to the Thrasher Analytics letter is the chart shown below. Here we can see two sets of data being shown. While the VRT 2.0 works to provide advance warning of a spike in the VIX, what about identifying periods of declining volatility? That's what this chart helps to uncover.

The chart consists of two sections:

1. Identifying the environment for rising or falling volatility, which is noted by the color of the VIX bars being **red** (rising) or **green** (falling).
2. The VRT 2.0 is shown with black arrows and two new "peak volatility" signals are shown in in **purple** and **blue**. The Conservative Signal (**blue**) waits until the VIX futures curve has begun to move back towards contango following at least a 2 in the Top Composite shown in the bottom panel while the Aggressive Signal (**purple**) is more sensitive to mean-reversion VIX characteristics.

Understanding the type of environment volatility is in and using these tools to gauge high probably of a move higher in the VIX (based on the VRT 2.0) or move lower (Aggressive and Conservatives Peak Signals) a more clear picture of the volatility landscape can be reviewed.



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