OptionProfessor.com Alert

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VIX BUY SIGNAL

BY THE OPTION PROFESSOR

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OptionProfessor Alert:
Stock Market- VIX Gives Buy Signal
December 8th, 2021

The stock market was sold off big time last week blamed on the new variant but let's be honest and admit the market had a huge run up to SPX 4743 and the VIX (Volatility-Fear Index) wanted no part of a 14 handle. To blame the selloff on the Variant is expeditious but more important was volatility in the bond market (yields rising) had not hit stocks until it did. Also; holiday sales were lagging pre-covid levels and inflation worldwide is accelerating (Germany at 6%!) and Central Banks talk of transitory is tired...now the talk is accelerated tapering.

Here's what the VIX was telling us. This YEAR; the VIX hit 35+ in January and the low SPX was 3700....in March the VIX hit 30+ and the low SPX 3723....in May VIX hit near 30 and the low SPX 4056...in July/August the VIX hit 25 and the low SPX was 4233....in Sept the VIX hit near 30 then in OCT hit 25 so the SPX low was 4300 in Sept 4278 in OCT (diverging VIX) and finally we are here in December with VIX hitting near 35 again and the low SPX has been 4500 so far. In prior VIX spikes this year the TURNAROUND off the lows was 1-2 weeks and off we went...just like we saw in the last 48 hours/in Sept-Oct it was more like a month. Choppy action may dominate action thru year end with news & tax squaring-in Jan. '22 volume spikes.

OUR OPINION-We hit some TECHNICAL support in the SPX last week at 4500-4540 (5yr chart 12 SMA was 4545) and we
have further TECHNICAL support at the September high area 4500. The action may be CHOPPY short term as the VIX has been all over the place and short covering/low volume (algos exacerbate moves) can be less than reliable but if we hold our SUPPORT ZONES at 4625-4550-4500...the YEAR END RALLY MAY STILL BE ON otherwise...if not... time to RE-ASSESS.

Friday's CPI Report looms important as the weak jobs report was disappointing. Next week retail sales should come in huge (Atlanta Fed guess 9%+ Q4 GDP) and the Fed expected to accelerate the taper process and put at risk the confidence in the Fed put theory. If seasonality & consumers & T.I.N.A do their thing in the next 6 weeks....who needs a Fed put??

You want a couple of dark horses??....keep an eye on FCX & NEM plus XLF XLV XLI XLRE...lots of runway if they get going.

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- The Option Professor, 12/08/21

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The following is an excerpt from the eBook "7 Best Ways to Trade Options" by The Option Professor, [download the full PDF eBook HERE](#).

#3. How Does Implied Volatility Affect Options?

Implied Volatility is the market's forecast of a likely movement in a price of an underlying market. It is a metric used by investors to estimate future fluctuations (volatility) of a price based on certain predictive factors. Implied Volatility denoted by the symbol (sigma) can often be thought to be a proxy of market risk. It is commonly expressed using percentages as standard deviations over a specified time horizon. When use in the stock market; implied volatility generally (but not always) increases in bearish markets when investors believe prices will decline over time. Implied Volatility will generally (but not always) decrease when the market is bullish and investors believe the market will rise over time. Implied Volatility does not predict the direction that the price change will continue.

Implied Volatility is one of the deciding factors in the pricing of options. Buying options contracts lets the holder buy or sell an asset at a specific price for a specific period of time. Implied Volatility approximates the future value of the option and the current option value is also considered. It is important to note that implied volatility is based on probability. It is only an estimate of future prices rather than an indication of them. There is no guarantee that an option price will follow a predicted pattern. However; when considering an option, it may be worthwhile to consider the actions of others activity in the option so implied volatility is directly correlated with market opinion which of course affects option pricing

CONCLUSION-OPINION...Our opinion with Implied Volatility is that it tells us what has happened but not will happen. Just like the point spread in a football game is indicative of how teams have been playing to some degree. It is important you remember that options have intrinsic value (the amount it is in the money-higher than the strike price on calls & lower than the strike price on puts) AND time value/implied volatility which is a discounting mechanism to some degree of future price movements. EXAMPLE if the underlying market has been 40-45 (flat) for the last year; the Implied Volatility would be lower and the option price generally lower. Conversely; if a market has been 100-200 (volatile) for the last 2 months; the Implied Volatility will generally be high. In some respects option trading is volatility trading and if you enter calls after a volatile move to the upside where implied volatility is high; the market will have to keep that pace and then some to overcome the premium. The direct opposite with entering puts after a big decline. Of course; there are a variety of option trading tactics buying/selling/spreading and Implied Volatility measures are an important consideration. Our opinion is that generally low volatility can present an opportunity for buyers to use longer dated options and high implied volatility options can present an opportunity to use as a hedge in a number of strategies or a means to contract to buy the market at a discounted price.

-7 Best Ways to Trade Options" [download the full PDF HERE](#).