Volume In VXX Is A Tell For Price Bottoms

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan reviews how using the VXX, a proxy for the VIX, and particularly VXX volumes, can help predict market bottoms.

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly:

http://www.mcoscillator.com/learning_center/weekly_chart/volume_in_vxx_is_a_tell_for_price_bottoms/

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

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The McClellan Chart-In-Focus

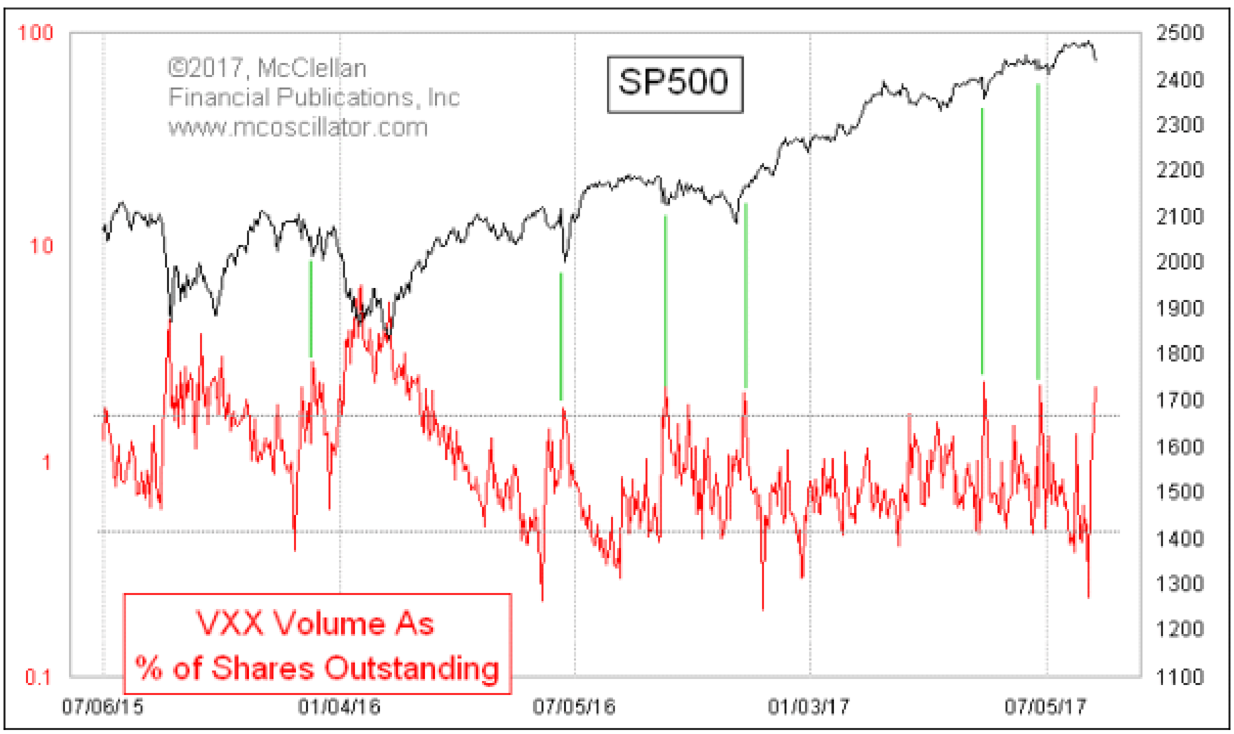
by Tom McClellan (bio at end)

Volume In VXX Is A Tell For Price Bottoms

The stock market's quick sell-off on August 10, 2017 came as traders got re-introduced to the concept of "event risk" after a long period of extreme quiet. Like bad drivers during the first snowfall of winter, there was a lot of relearning going on about how the market works.

The CBOE Volatility Index, VIX, shot up to 16.04, after having closed below 10 just 3 days before. That led ETF traders to go wild with all of the VIX-related products. VXX is perhaps the best known of these, and it is not actually an ETF but rather an "exchange traded note", or ETN. The difference is meaningless for traders and investors.

This week's chart shows the daily trading volume in VXX with an important adjustment. Because VXX's price is in a long-term downtrend, its number of shares outstanding has to rise to keep up and represent the same dollar amount of exposure. As a result, volume also trends higher as prices trend lower. Adjusting volume to show it as a percentage of shares outstanding helps to cancel out this effect, and it allows us to see better when trading volume goes to a high or a low extreme.



By this measure, the volume on August 10, 2017 was the third highest of the year, and high enough to serve as a useful marker of a short-term price low. Putting it more simply, when short-term sentiment reaches a fever pitch, driving up the volume in VXX, it tells us that there has been a wash-out of trader fears, and so prices can start to bounce.

Extremely low trading volume can also be a marker of price tops, although it is not quite as reliable. One also has to, at least mentally, factor out whether a low volume day might be explained by holiday light trading around Christmas, for example.

You can track VXX volume easily anywhere. Tracking shares outstanding is a little bit harder, but it is available on several data platforms under the symbol $VXX.SO, where the .SO suffix stands for "shares outstanding". Check with your data provider to see if they make it available.

This indicator is one that we watch carefully, but only show infrequently in our *Daily Edition* and twice monthly *McClellan Market Report* because its signals are so infrequent. But when they do appear, they are worth paying attention to.

Tom McClellan

Editor, The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* follows on the next page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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