A New VIX Indicator (That Is Really Not All That New)

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eResearch 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 looks at the Bollinger bands for the VIX and makes a noteworthy comparison.

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May 3, 2019

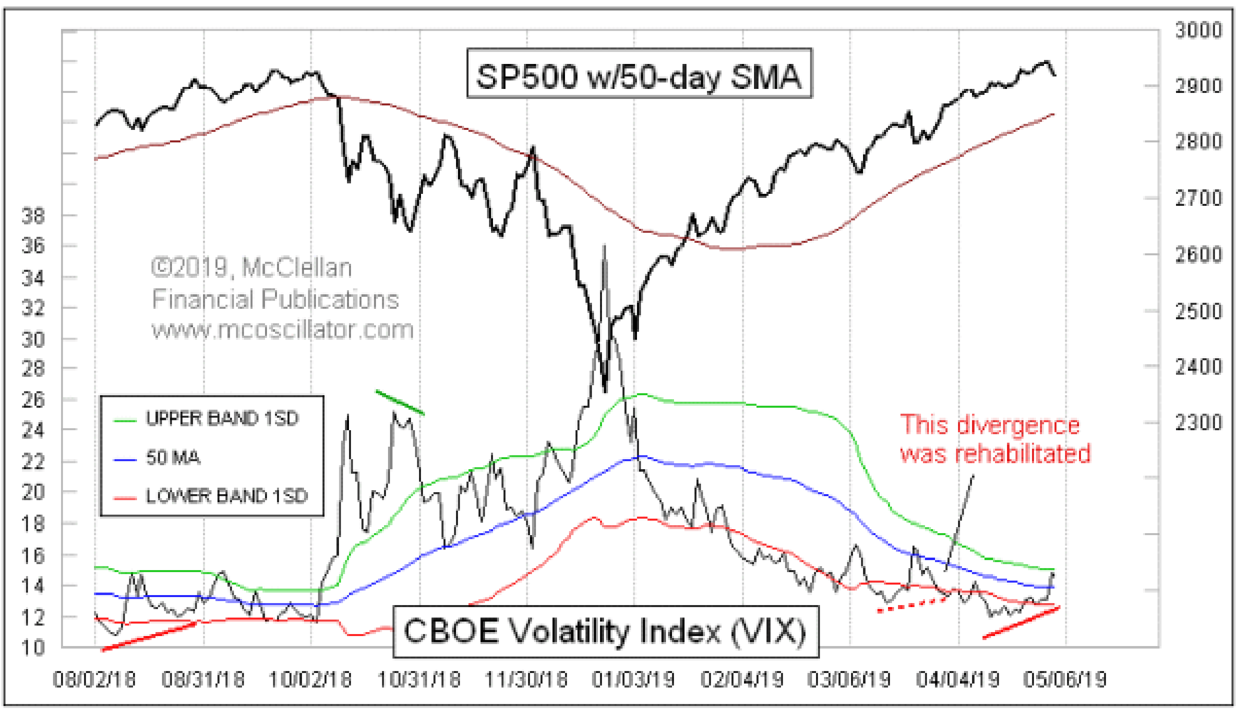
The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

A New VIX Indicator (That Is Really Not All That New)

A little bit of fear over the old saying about "Sell in May and go away" has led the VIX Index to pop up through its 50-day moving average (50MA), but stopping right at its upper 50-1 Bollinger Band.

The VIX's pattern of higher lows is not confirming of the higher price highs and, for now, that is a problem for the bullish case. But it is a problem which can get resolved, as the March 2019 example illustrates.

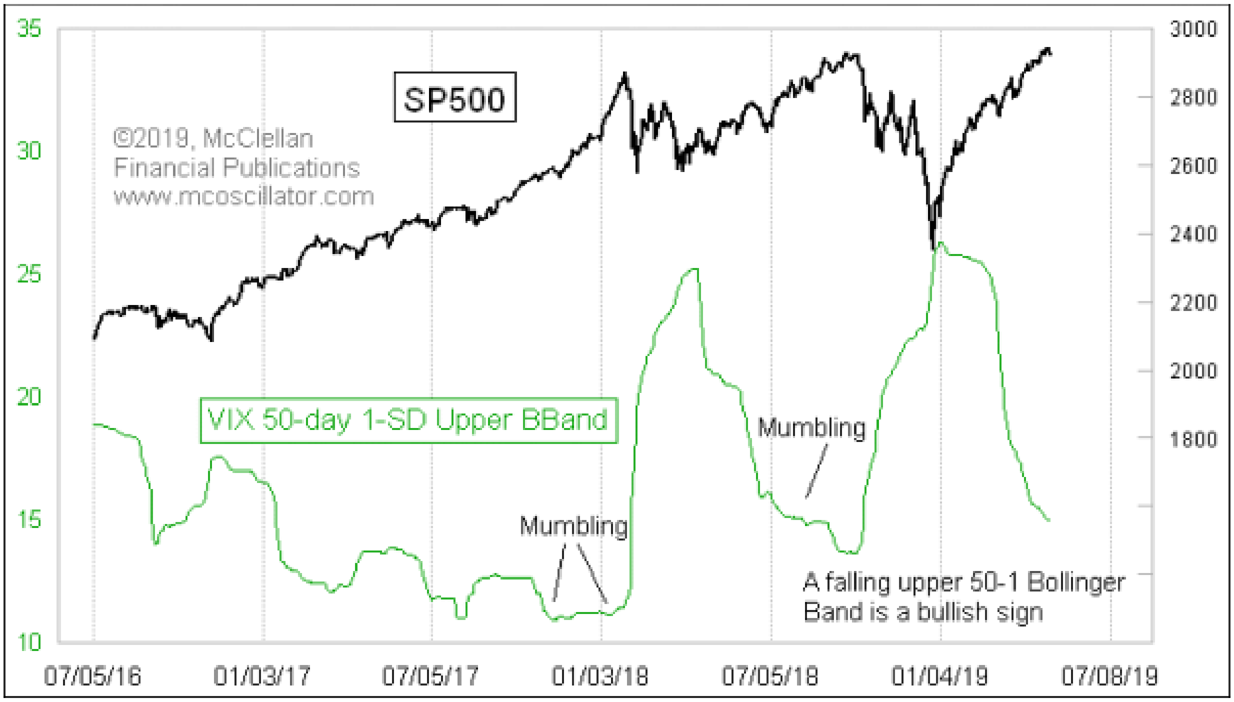


I show the chart above as an important prelude, even though I am burying the real story somewhat in starting off with that. But it contains important concepts which will lead to a fun chart below.

The chart above includes 50-1 Bollinger Bands of the VIX. That means I am using a look-back period of 50 trading days for both the centered moving average (50MA) and also for the calculation of a 50-day standard deviation (50SD). That 50SD is used to set the spacing of the upper and lower bands by 1 SD above and below the 50MA, hence the 50-1 appellation.

Now, getting around to the main point this week, I want to focus your attention to the upper band, because it has some really fun magic properties which are worthy of our attention.

This next chart looks at the upper 50-1 band compared to the SP500:



The fun attribute is that it pretty reliably moves inversely to prices. And it furthermore ignores some of the big whipsaws along the way that a good trend-following model should rightfully ignore. The long continuous move down by the 50-1 upper band since the December 2018 low has correctly modeled the strong uptrend in the SP500.

Where this indicator runs into a bit of trouble is at its low readings, which are associated with price tops. It can take a while to fully construct a price top and, in the process, there can be some mumbling in this indicator (and others). So the first upturn of the upper 50-1 band may not be the final word for a specific topping event's full process.

At some point, though, the VIX's 50MA starts upward, and volatility expands to make the bandwidth get bigger, and both of those together give us a rising upper band which is associated with a declining price for the overall stock market. That will be an important indication when it finally and decisively appears, but it is not here yet.

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is is provided on the following 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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