



OUTLOOK

"Time to Buy Fear"

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We believe the perfect storm is brewing for a surge in the VIX from its current trading range this year.



If we look at the % of S&P 500 stocks above their 50 day moving average, we can see a pattern of the VIX rising soon after the % of S&P 500 stocks above their 50 day moving average rises to 70% or higher. This pattern can be seen in the graph above with the VIX in red and % of S&P 500 stocks above their 50 day moving average in blue. Why is this case? The S&P 500 tends to reach overbought levels when the % of S&P 500 stocks above their 50 day moving average reaches 70% or higher, especially in a bear market. In a bull market, the % of S&P 500 stocks above their 50 day moving average can remain above 70% for an extended period of time. Given that we are in a bear market as the defined by the 50 day moving average of the S&P 500 trading below its 200 day moving average, we would expect this overbought condition of the S&P 500 to be short-term and would likely see a resumption in the S&P 500's long-term down trend. As a result of a falling S&P 500, we expect to see the VIX spike to 47 or higher as fear re-enters the market within the next few weeks.

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