THE VIX:

My Biggest Moneymaker in 20 Years of Trading

MARK SEBASTIAN'S

PROFIT TAKEOVER

The VIX: My Biggest Moneymaker in 20 Years of Trading

By Mark Sebastian

Most people know the CBOE Volatility Index – or the VIX, for short – as the market's "fear gauge."

But I was on the floor when this product was created, and it's so much more than that.

The VIX is actually the single-biggest moneymaker in my trading arsenal.

Back when I worked on the floor, however, we didn't reveal that tidbit to clients. We *talked* about the VIX to clients simply as a way to gauge the market's volatility.

But behind the scenes, we were *trading* the VIX to score massive gains.

That's one of the exact reasons I'm standing where I am today – in my home office in Texas – instead of on the trading floor in Chicago or New York. Because I realized that if the VIX's true power was made available to everyone, it could change lives for everyday traders.

All you have to do is understand what the VIX is, what it measures, and how to trade it.

And that's exactly what I'm going to tell you today.

What Is the VIX?

The VIX is best known as the market's "fear gauge" for a reason. Essentially, it measures fear in the market. And when you boil it down, it's simple to understand.

When stocks are going up, investors are making money. They aren't scared. Fear is low, and so is the VIX.

But when stocks are going down, investors are losing money – they *are* scared. Fear is high, and the VIX shoots up.

The VIX uses S&P 500 option prices to determine the level of volatility in the market. Based on how much money traders are willing to spend on options, the VIX decides where volatility should be headed in the future.

Now sometimes, the VIX doesn't move the way it's supposed to.

If the S&P 500 is moving higher, you'd expect the VIX to be moving lower… right?

But that doesn't always happen. Sometimes, these two don't move inversely of one another. Sometimes, they're both going up at the same time. And when that's happening, it typically signals a top – meaning the market is about to drop.

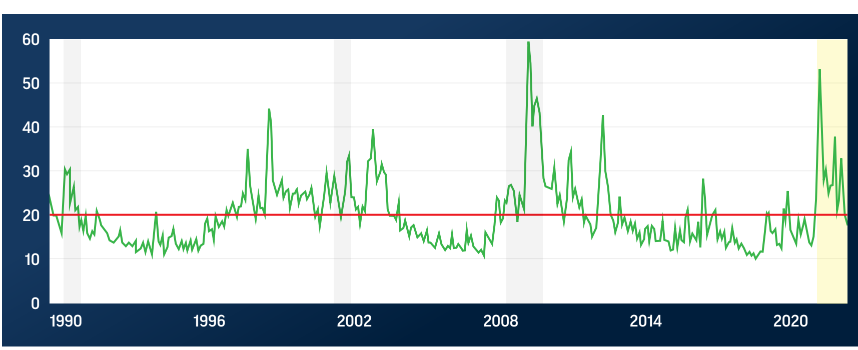
Want an example? Check out how high the VIX spiked ahead of the now-infamous March 2020 Coronavirus-inspired market crash…

CBOE Volatility Index, 2020 – courtesy of StockCharts.com

The VIX started rising *before* the market's crash… in tandem with the S&P 500. So when the market crashed a few days later, I wasn't surprised.

It's true the other way too. If the S&P is falling, you'd expect the VIX to rise. But sometimes, the VIX falls along with the S&P – and that typically signals that the market is at a *bottom*, about to rise back up – which is a great buying opportunity in the broader market.

Throughout history, the VIX has ranged from a low of 9.14 to a high of 82.69. To see just how reliable it is at predicting fear in the market, check out how it's moved over the past 30 years – including through two recessions and recoveries…



Long-term investors prefer volatility on the lower end. But we're traders – and typically, volatility presents the opportunity to make money.

That's why over the course of my 20-year trading career, I've created a proprietary system that shows me exactly where the VIX – and therefore, the broader stock market – is headed.

Here's how it works…

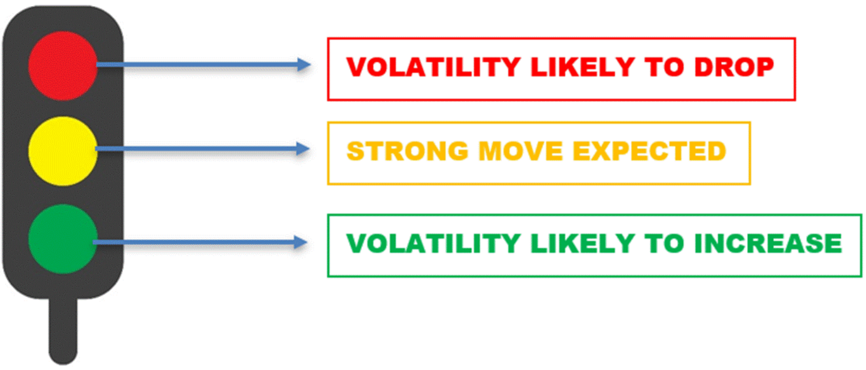
My VIX Traffic Light System

Red, yellow, green – we're taught from an early age what these colors mean on a traffic light.

And it's just as simple when we're looking at the VIX.

Over the past 20 years, I've developed a proprietary tool using the VIX to help guide my trading strategy – and it's become my g o-to indicator.

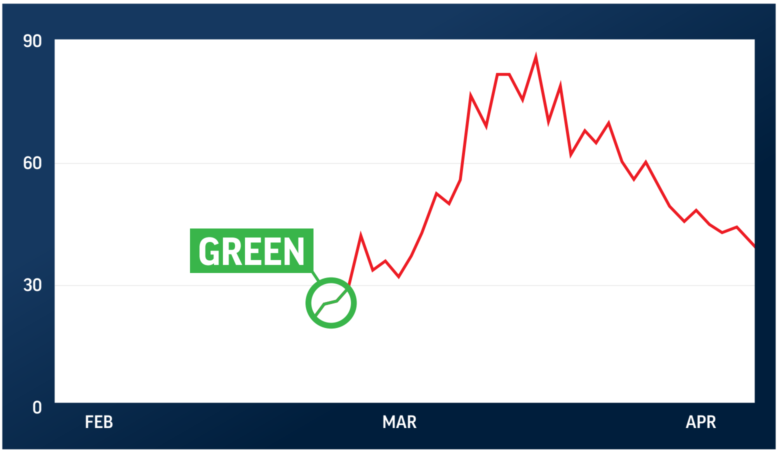
Today, I want to introduce you to my Volatility Traffic Light…



Volatility Traffic Light, courtesy of Mark Sebastian

Reading the traffic light is simple – but just remember in the world of volatility, everything is upside down. When the light is red, the broader market is typically moving *up*. That means the VIX – and fear – is likely to drop.

When the markets are selling off, the light is green – just like it was back in February 2020, right before the Coronavirus-inspired, history-making crash…



VIX Jan 21, 2020 – April 13, 2020

Now typically, yellow means "slow down" or "proceed with caution." But the yellow light in my proprietary system essentially means "we don't know."

If the light is yellow, we're in limbo. We could go up – or we could go down. Either way, a strong move is coming, and we need to brace ourselves for that move.

Now, to determine which color my traffic light is each day, I use a variety of indicators...

One of which is the VIX futures.

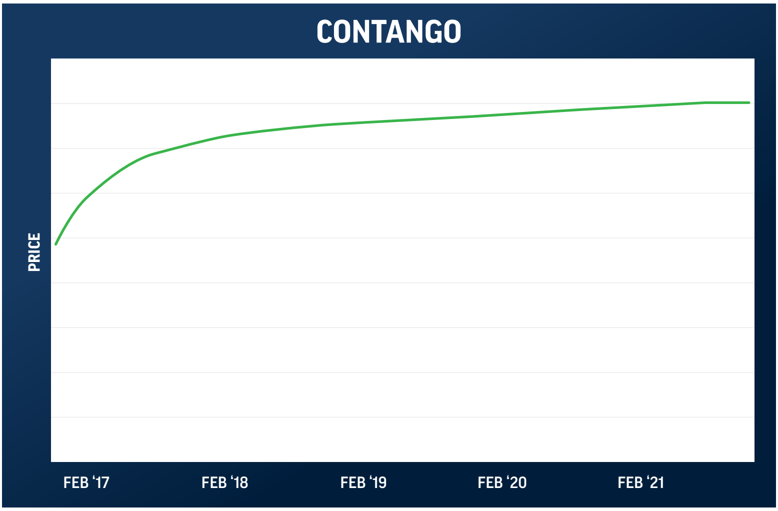
VIX Futures

The VIX is simply a tool to measure volatility in the market. It's not a tradeable product in and of itself. So to trade the VIX, you have to use options…

Or futures.

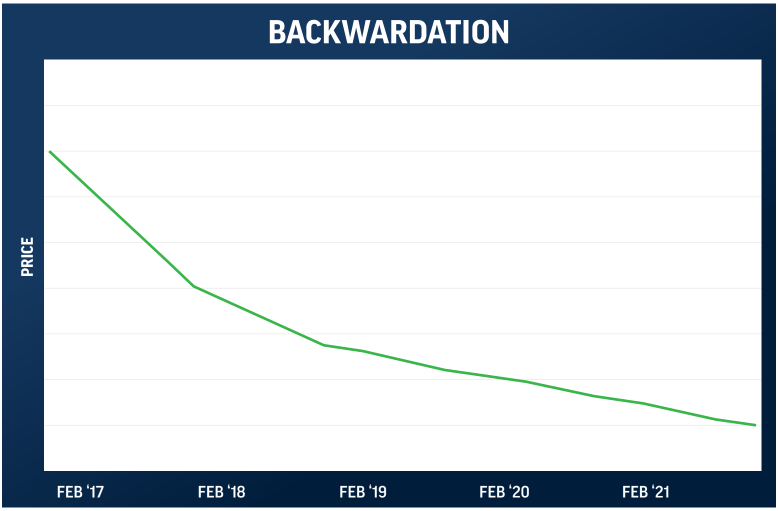
In general, VIX futures reflect the market's "guess" as to the VIX's value in the future. They're a way for traders to trade volatility based on future values of the VIX. The price of a VIX futures contract is essentially where the market thinks the VIX will be by the expiration date of that contract.

Sometimes, futures contracts with longer expirations are more expensive than futures contracts with shorter expirations. When that happens, the VIX futures market is in something called *contango*, represented by an upward curve…



VIX futures are usually in contango when volatility is at or below average levels. And when we're looking at a contango, that generally means volatility will rise in the long term – which could turn my long-term VIX traffic light green.

On the other side, VIX futures can also be in *backwardation*. This is less common than contango, and it occurs when futures with longer expirations are *cheaper* than those with shorter expirations…



Typically, the futures market enters backwardation after a volatility surge – and could turn my traffic light red as volatility drops from a peak.

Every day in ***Profit Takeover***, I'll tell you exactly where my VIX traffic light stands. I'm not keeping any secrets – I want to put financial power directly into your hands…

And I'm going to use this number-one indicator to show you how.

But once you know where the VIX stands, one question remains – how do you trade it?

Trading Market Volatility

While VIX futures are one of the most popular ways to trade market volatility, they're not the only way. You can buy options directly on the VIX – or you can take part in a variety of leveraged and unleveraged ETFs and ETNs.

Take the **ProShares Ultra VIX Short Term Futures ETF** (BATS:UVXY), for example. This ETF tracks short-term volatility with 1.5X leverage.

Why the leverage? Well, the UVXY doesn't track the VIX directly. It tracks futures instead, which actually aren't as volatile as the VIX itself. By comparison, take the **iPath Series B S&P 500 VIX Short-Term Futures ETN** (BATS:VXX).

Unlike the UVXY, the VXX isn't leveraged. And as a result, it only moves about 45% as much as the VIX.

Here at ***Profit Takeover***, we're after big, asymmetrical returns. So we want to put our money into assets that move big and move fast. That's why in the case of the VIX, the UVXY is one of the best ways for retail traders to take advantage of market volatility.

There are a ton more ETFs tracking volatility in the market – tracking short-term futures, mid-term futures, long-term futures, and more – both leveraged and unleveraged. The VIXY, VIXM, VXZ, SVOL – I could go on.

Some stocks like **Apple Inc.** (Nasdaq:AAPL) even have their own VIX. AAPL's is the **CBOE Equity VIX ON Apple** (INDEXCBOE:VXAPL), and it's a great way to gauge volatility in the large-cap stock even if you can't trade it directly.

If there's one key to making money in this market, it's *volatility*.

And the VIX is our secret weapon when it comes to leveraging volatility into fast, asymmetrical returns.

Here's to your success,

Mark Sebastian
Volatility Specialist, ***The Profit Takeover***

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