

Investtalk *InfoSheet*: Using the VIX

Fear and greed are the only two emotions that matter in the stock market.

These two emotions have often gripped traders and investors. However, how do we measure fear or greed?

There is no question when fear is in control- the market has sold or is selling off, the news is usually bad, there is a feeling of doom, but is it enough fear? Greed is easy as well. When everyone feels good, the news is all upbeat and there seems no end of good news, greed is in control. One way to measure fear and greed is looking at the VIX.

The volatility index measures the put and call option activity. When the VIX spikes up fear has hit the maximum. That is a clear sign that the sell-off in the market is coming to a close and it is time to buy. When it spikes down the stock market has hit bottom and the next move is up.

The VIX moves up and down all the time but it is in the spikes that tell the story. Without the spike up or down it's not a fear or greed driven stock market but rather a normal struggle between fear and greed. You are looking for the panic on one side or the other.

It is always hard to read the signs. Again, spikes up or down are the keys in using the VIX. There are many times that it does not spike yet the market turns up or down, but it is in spikes that you can rely.

Spikes are very telling. The rule is that you buy fear and sell greed.

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