VIX AND OCTOBER

By Nicholas Colas

We pulled apart the daily history of the VIX since 1990 and identified the low and high point for each year – the results are in the table. Our logic: if the VIX is a kind of 'Fear Indicator', measuring the options market's appetite for protection against sudden drops, then perhaps that sentiment indicator will follow Twain's admonition about putting money to work in October.

	Events	High	VIX	Events	Low	VIX
January	4	14-Jan-1991	36.20	4	28-Jan-1994	9.94
		14-Jan-1999	32.98		26-Jan-1996	12.00
		20-Jan-2009	56.65		22-Jan-1997	17.09
		27-Jan-2003	34.69		24-Jan-2007	9.89
February	1	3-Feb-2014	21.44	0	N/A	N/A
March	1	22-Mar-2004	21.58	2	28-Mar-2002	17.40
					14-Mar-2013	11.30
April	3	4-Apr-1994	23.87	1	28-Apr-2011	14.62
		14-Apr-2000	33.49			
		15-Apr-2005	17.74			
May	1	20-May-2010	45.79	2	15-May-2008	16.30
					23-May-2014	11.36
June	3	13-Jun-2006	23.81	1	21-Jun-1990	14.72
		1-Jun-2012	26.66			
		20-Jun-2013	20.49			
July	0	N/A	N/A	4	17-Jul-1998	16.23
					16-Jul-1999	17.42
					2-Jul-2001	18.76
					20-Jul-2005	10.23
August	3	23-Aug-1990	36.47	2	25-Aug-2000	16.53
		5-Aug-2002	45.08		17-Aug-2012	13.45
		8-Aug-2011	48.00			
September	2	21-Sep-1993	17.30	0	N/A	N/A
		20-Sep-2001	43.74			
October	4	9-Oct-1992	20.51	0	N/A	N/A
		5-Oct-1995	15.74			
		30-Oct-1997	38.20			
		8-Oct-1998	45.74			
November	2	12-Nov-2007	31.09	2	13-Nov-1991	13.95
		20-Nov-2008	80.86		21-Nov-2006	9.90
December	1	16-Dec-1996	21.99	7	23-Dec-1992	11.51
					22-Dec-1993	9.31
					13-Dec-1995	10.36
					23-Dec-2004	11.23
					24-Dec-2009	19.47
					17-Dec-2003	15.58
					22-Dec-2010	15.45

Key observations are as follows:

- If the VIX were a simple random pattern, you'd expect to see every month of the year host its fair share of high and low points for the VIX that year. January would have about 2 highs and 2 lows, as would February, March and so forth.

- The actual results are not randomly distributed – some months have lots of lows or lots of highs, and some months have no lows or highs. Yes, the statistically minded reader will know that 25 years of results barely scratches the "significance" hurdle. But do you really need to see 100 years of history before you accept the data? Keep an open mind as we move on.
- Since 1990, the CBOE VIX Index has peaked in October 4 times (1992, 1995, 1997, 1998) and has NEVER troughed in that month. Incidentally, over the past 25 years the VIX has also never troughed in September during any given year.
- The only other month when the VIX shows a similar seasonal proclivity to hit its annual high is January. Since 1990 there have been 4 such highs (1991, 1999, 2003, 2009). Coincidentally, January also hosts an unusual number of VIX low points for a given year: 4 again (1994, 1996, 1997, and 2007).
- If you want to find the quietest month of the year, look to December. Since 1990, the VIX has bottomed in that month a total of 7 times (1992, 1993, 1995, 2003, 2009, 2010). That move does coincide with a 'Santa Claus' rally, of course, but also shows that light volumes around the Holidays do make for limited price action generally.
- What does this all mean about the direction of U.S. stocks right now? The simple answer is that seasonal patterns strongly favour more volatility over the next five weeks. The CBOE has thus far troughed at 10.32 in early July. That is a pretty common month for an annual low point in the VIX – 4 observations since 1990 (1998, 1999, 2001, and 2005). July is actually tied for second place for annual VIX lows with January (4, as mentioned) and behind only December (7, also mentioned).

- We also know that over the last 25 years the VIX has NEVER bottomed for the year in October. A historical best-case-scenario for stocks would be that the VIX tread water at current levels – 13.7 as of today's close. The worst-case-scenario: a move to above 21.4, the highs from February. Keep in mind that there's only been one year over the last 2.5 decades where the VIX has peaked in February: this one, so far anyway. Do you feel lucky?

To round out this discussion, we can also look at where implied volatility is flowing at the moment. We do this every month with an analysis of the "Implied Volatility" imbedded in the options pricing for a host of exchange traded funds that track everything from gold to high grade corporate bonds to all 10 sectors of the S&P 500. There are two charts that cover the results right after this note, but here is our summary list of key points:

- The "VIX of" most asset classes and sectors has risen over the past 30 days. For example, most industry sectors in the S&P 500 shows a higher Implied Volatility, ranging from Materials (+1.5% "VIX" than last month) all the way to Consumer Discretionary (21.2% higher VIX than last month).
- Corporate bonds show a similar trend. High yield corporates show 20% higher implied volatility in their options prices, and high grades show 1.5% more. That second observation highlights the uncertainty behind when the Federal Reserve might raise rates and make these notionally "Safer" fixed income instruments have to compete with Treasuries.

- The only general exceptions to this rising VIX tide are a handful of defensive sectors, like Utilities (1.8% lower) and Consumer Staples (8.4%).

In short, it would appear that options trades know their calendar and their Twain. October is just 6 trading days away. And all the other months come right after.

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