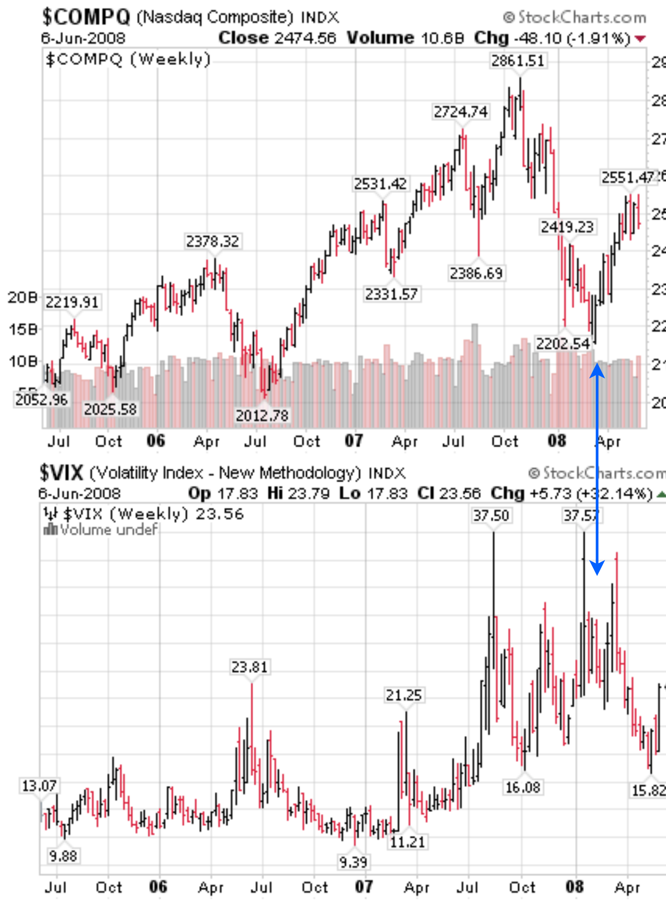
Investor Education

CBOE Market Volatility Index $VIX



CBOE Volatility Index

The CBOE Volatility Index is a market indicator of implied risk and the potential for future uncertainty and volatility perceived by investors. The higher the number (scale on right side of the chart), the more fear or uncertainty investors have. This in-turn means that there will be a greater demand for put options. Put options make money for investors if the market declines. Low readings (9.39 and 11.21) in October through December 2007 shows low concern for volatility.

You can look at the above charts and notice that as the S&P 500 (upper chart) moves higher, the CBOE volatility index (lower graph) stays relatively flat.

When the market begins to move lower, investors become much more nervous and uncertain. More fear comes into the market and the CBOE volatility index moves higher. The same is true when the NASDAQ (chart on the right) declines. The CBOE volatility index rises as investors begin to worry.

The blue lines with arrows show how when markets correct in price, investor fear begins to rise. This is just one tool investors can use if they want to be a ***contrarian investor*** *(buy when others are panicking)!*. Historically, readings above 50% have coincided with market bottoms. The sub-prime and Bear Sterns collapse caused multiple spikes in the VIX this year (first half of 2008).