

PHASES & CYCLES®

The best tool to forecast the end of a sell-off.

The S&P 500 Index (SPX), which has been falling since October 12th, is coming near to an important turning point.

Which Index helps to forecast the climax of a market sell-off? It is the VIX.

Contrary to common beliefs, the VIX does not forecast a market top. The VIX is best used to forecast the end of a decline.

As the chart below indicates, during a market advance the VIX remains in a “resting position” between 10 and 25, but once the market reaches a top and begins to decline, the VIX begins to rise so that each day the daily high is higher than the day before.

This continues until the VIX has a major uptick, suddenly jumps to a significant high, followed by days that its high for the day is lower than the previous day's high. This action signals the end of the sell-off, the selling climax, the bottom.

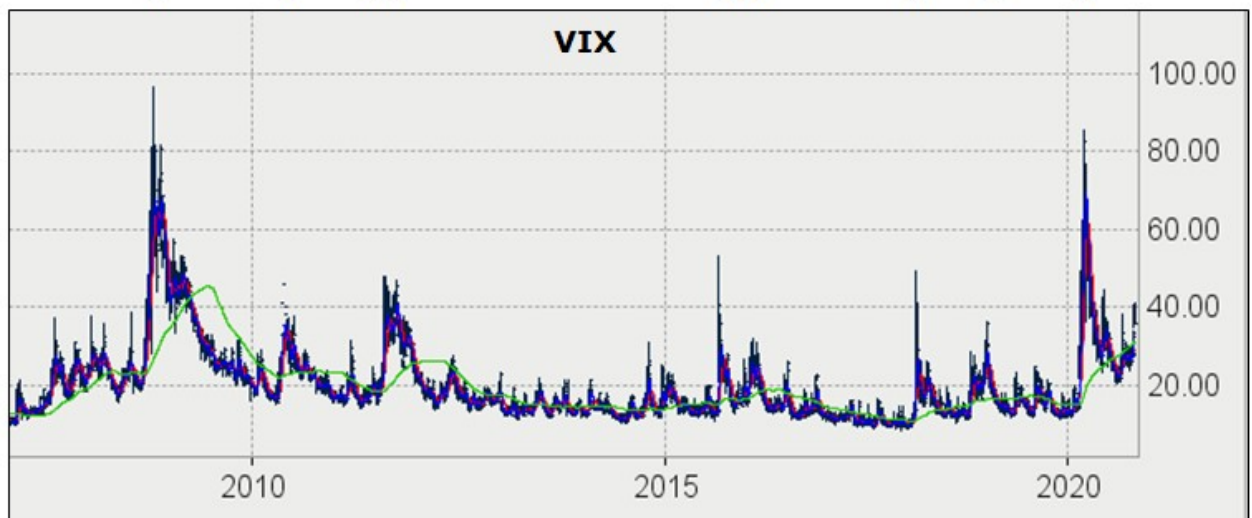
Look at the actions indicated with an “X” in January 2009, early 2010, late 2011, late 2015, early 2016, at the end of January and at the end of December 2018 and March 2020 on the SPX & VIX charts below.

I have the VIX on my screen at all times, and when the market starts a correction, I wait for the sharp uptick and the sharp drop-off and then I enter my buy orders!

Ron Meisels is the founder of independent research firm Phases & Cycles Inc. You can get a free trial on the website.



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