OPTIONPIT

The #1 Indicator

For Turbulent Markets

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VIX9D

The #1 Indicator Your Trading is Missing & How to Use it Daily to Improve Your Two-Way Trades

The VIX9D is a critical, underrated indicator that can improve your trading immediately in two key ways. The VIX9D tells us what the market's opinion is, and what the market's expectations are. We need to know those in order to set up a Two-Way Trade that can profit up to 20% every 14 days.

I'm going to walk you through what the VIX9D is, how you should use it in tandem with Two-Way trades to generate income AND act as an overall Portfolio Hedge, and then I'm even going to show you how you can get the VIX9D indicator on your OWN charts to inform your own daily trades.

What is the VIX9D?

The CBOE S&P 500 9-Day Volatility Index SM (Ticker: VIX9D) estimates the expected 9-day volatility of S&P 500 stock returns. Similar to the VIX which is 30 days, VIX9D is derived by applying the VIX algorithm to SPX options, but it uses SPX options with expiration dates that bracket a nine-day period of time instead of 30..

ATM volatility for SPX 9 day option

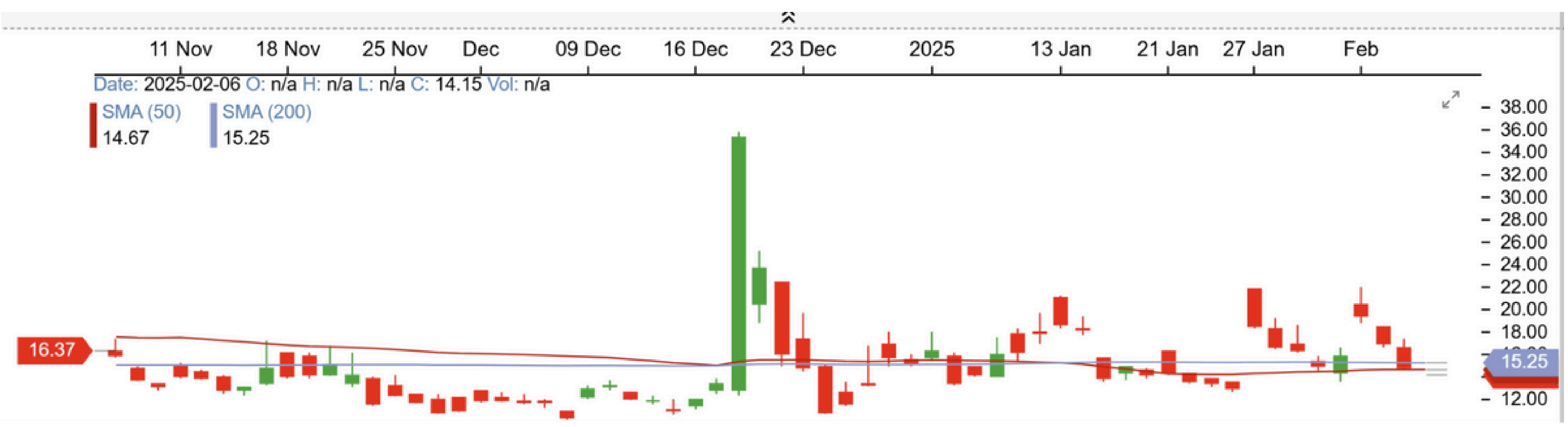
VIX 9d 23.34 it expects near 1.5 per day in SPY/SPX

Every 16 points in the 9day VIX is 1% in SPY
Every 24 points in the 9day VIX is 1.5% in SPY
Every 32 points in 9day VIX is 2% in SPY

Here’s what that means for all you non-trading nerds, in English. VIX9D is the volatility for a continuous 9-day SPX at-the-money option. That means, the VIX9D tells us how much we expect SPX to move in the next nine days. It’s similar in duration to a standard 10 day realized volatility. However, the difference is that VIX9D looks forward, whereas 10-Day Realized Volatility looks backward.

This is important because VIX9D reacts to intraday moves, while 10-Day Realized Volatility looks only at recent close-to-close moves. More information for us = better decision making on Two-Way trades.

Here’s an example of 3 months of VIX9D on a chart:



This shows us the daily range of VIX9D over the last 3 months. Keep in mind that a 1% daily underlying move in the SPX is a 16% volatility or a 16 VIX9D. A 2% underlying move is a 32% daily volatility and so on. The VIX9D of 15.25% is looking for just under 1% close to close moves for the 9 day period. The spike to 32% is 2% per day for 9 days. That is a lot of action of around 120 points SPX every day close to close.

Here’s an example below of what actually happens over the 10 day period. Notice that actual volatility in SPX was much less on average than predicted by VIX9D. Just because volatility is priced higher, does not mean that SPX will move that much. Take a point on the 10 day realized volatility chart and look backward in SPX for 10 days.

3 month chart of 10 Day Realized Volatility, SPX up top with 1 day candles

The chart above is SPX and day realized volatility. What is visible is that over a 9 day period SPX can move quite a long way. So why the daily volatility might subside, successive moves in the same direction can leave the VIX9D correct on the velocity of the move.

Remember that is important because 9 days is a long time in stock market time. VIX9D is giving an impression of the move over the 9 day duration.

How does VIX9D move?

9 Day VIX candles with VIX percentage moves in purple

From the chart above, VIX9D is more volatile than VIX.– look at that spike on Dec 18! This chart illustrates how the term difference means something. The 9 Day VIX is going to move more than the regular 30 day VIX. When 9 day VIX falls well below VIX, SPX tends to rally or at worst stay flat.

When the market starts to move, VIX9D will wake up faster than VIX. That means it is the FIRST MOVER and the #1 indicator we want to watch for when the market is ready to pop or drop. The flipside is also true. When SPX starts to calm down, VIX9D will drop quickly. This is a sensitive volatility indicator, it helps identify when SPX can move up or down.

Can you trade it?
The VIX9D cannot be traded directly, but one can buy and sell SPX/SPY options 8-12 days using the signal provided by VIX9D. It's more useful in my view to use the relative moves in VIX9D and VIX to set up SPY trades. I will explain below.

If VIX9D is going down, SPY should be going up.
If VIX9D is going up, SPY should be going down.

As one can imagine, there are many ways to trade SPY options, but using VIX9D as an indicator helps to see how strong the velocity of the move is. Strong velocity means SPY will move farther in one direction over a period of time.

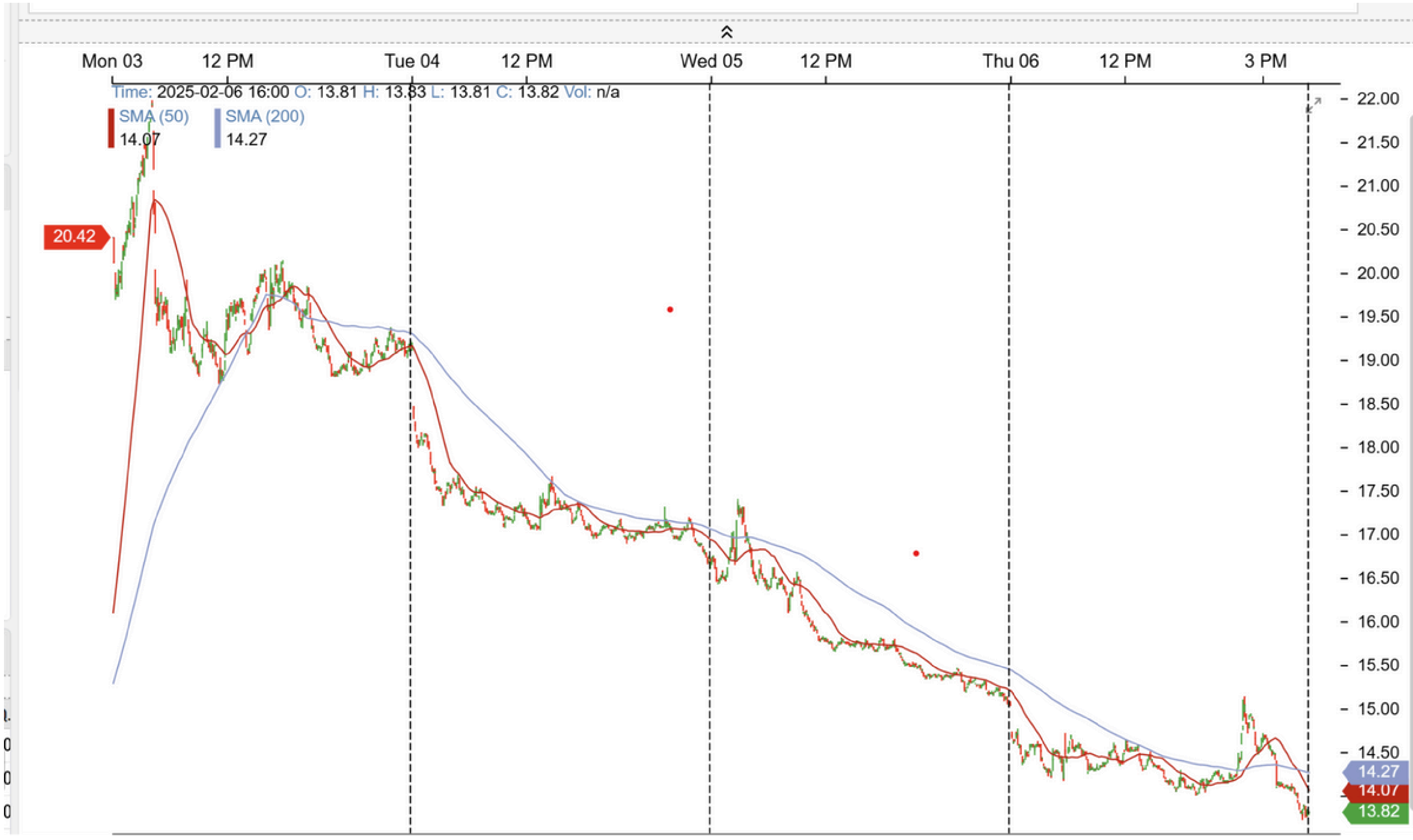
If I lead with a SPY rally, VIX9D should decline.
If I lead with a SPY drop, VIX9D should rise.

This is what I expect. One trick is if SPY goes up, and VIX9D does not decline, but stays flat, expect the rally in stocks to be short lived.

VIX9D and VIX as indicators
In terms of value, VIX9D can have a different price than VIX . The wider that difference gets, the more the market expects higher or lower realized volatility over the next nine days for SPX. Essentially, it's a signal for a lot less noise in the short term as traders gear up for a less active market. So it looks like this:

If VIX is below VIX9D, expect SPX to move more.
If VIX is above VIX9D, expect SPX to move less.

On the next page is a chart of VIX9D performance while SPX rallied 200 points.



5 day VIX9D chart with 1 min candles where SPX rallies 200 points

This shows the inverse relationship between SPX and VIX9D. The very steady drop of VIX9D occurred with the steady velocity of SPX moving almost straight up.

The chart above shows how fast VIX9D can move on a drop in SPX. Lower VIX9D numbers generally correlate with a rising SPX. The opposite is also true; VIX9D can accelerate up with a drop in SPX.

While VIX9D's value can indicate the direction of SPX movement, what really matters is the difference in price between VIX9D and VIX. As volatility accelerates, VIX9D gets to the higher expected price of VIX, and market expectations for more volatility go up. Normally VIX is higher than VIX9D because traders expect more volatility in the long-term future. When VIX9D jumps, short-term volatility expectations skyrocket. If you are a shorter term option trader, you want to know this and get out of the way or ride it down.

If VIX9D is less than VIX, realized volatility is decreasing and SPX is increasing.

If VIX9D equals VIX, expect swings in realized volatility and VIX.

If VIX9D is greater than VIX, realized volatility is increasing, and SPX is decreasing.

Summary

VIX9D is the same setup method as VIX but with shorter duration options. The closeness to expiration makes it a great indicator in a trader’s toolbag for market expectations and sentiment. While one cannot trade the VIX9D direction, short term SPY or SPX options work well as a proxy once the trader learns how to construct trades. I find the relationship between VIX9D and VIX as a hugely useful indicator for changing market sentiment, and the #1 informant of how I will set up Two-Way trades, which you’ll learn MUCH more about on Wednesday, March 12th at 7pm EST, live with Hannah and me!