



**>: How you can see into the stock market's future.**

*Thursday, May 18, 2006 / Chris Rowe*

Did you know that there is a way you can see into the

If I'd been writing in *The Tycoon Report* in October of 1998 (*Don't you hate hearing people say things like that?*)

Have you ever heard of the CBOE Market Volatility Index?

Well, it's not just another one of the gazillion differen

It is the market's best prediction of near-term market v

If you don't use this indicator, you are missing a key v

The way to access the quote or chart may vary depend (The "^" is on top of the 6 on your keyboard.)

Most quote systems will show you the index under the

This indicator is known as the "investor fear gauge" b

You should save a quote of the VIX somewhere on yo

*How can you use it to predict market bottoms?*

The "VIX" starts to rise during times of high stock market stress, and falls as investors become complacent.

Before I get into this, just remember that there is no "holy grail" to investing. But that being said, this technical indicator is extremely accurate.

It isn't something that is used every day, so I find that most traders/investors who know about it actually forget about it, and then thank me when I remind them to check it.

So here it is ...

**The first thing to understand here is that the VIX is what we call a contrarian indicator. In other words, when it is showing us that investor stress/fear is at high levels, then a bear market is most likely at or near a BOTTOM.**

When the index shows us that the market is very complacent, then you should be cautious. The index is a MUCH better guide for predicting market bottoms than market tops. I wouldn't recommend trying to predict a market top based on the VIX, but it is always smart as an investor to know when the market is overly complacent.

The first VIX (Symbol: VXO), introduced by the CBOE in 1993, was a weighted measure of the implied volatility of eight S&P 100 at-the-money put and call options.

Ten years later, it expanded to use options based on a broader index, the S&P 500, which allows for a more accurate view of investors' expectations on future market volatility.

I'll make this simple here ...

When the VIX is up, it means that people are willing to pay more for options (most notably, put options), which are largely used as a way to hedge your stock portfolio against losses, or to reduce the volatility of your portfolio.

When the premiums for options are higher (and the VIX is higher), it means that investors expect more volatility.

When the VIX is at levels greater than 30 (which is considered high), it is associated with a large amount of volatility due to investor fear or uncertainty *The majority of the time, this is when you want to buy stock*

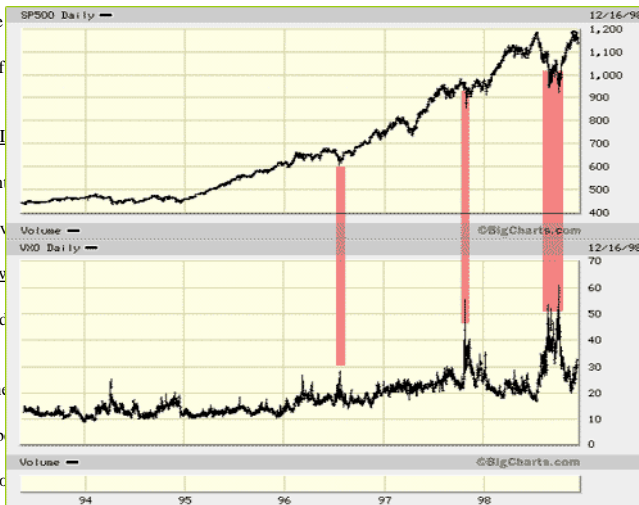
When the VIX is at levels below 20, it is associated with less stressful, complacent times in the markets.

When the VIX is over 40, it means that there is a TREMENDOUS amount of fear in the market. I mean, people think that the sky is falling and the world is coming to an end.

That, my friends is a HUGE indicator that we have hit a bottom, and you should drop everything and BUY.

Look at the two charts below.

The top chart is of the S&P 500 from 1997 to May 1, 2006. The bottom chart is of the VIX, in the same exact time period.



om, and it was time to BUY. Any of my old clients can vouch for m

st time, then I may earn a *Tycoon Report* reader for life.

"Yahoo Finance" the quote looks like this: ^VIX.

nbol VXO.

Look closely. Doesn't it look like the same chart, flipped upside down?

Notice how when the VIX is at its highest points (usually between 40 and 50), it has marked a bottom of a bearish trend. This is when most people are sellers, and if you remember what you read today, it is when you will be a buyer the next time it happens.