How to talk to your clients about The Vix

The official name is the CBOE Volatility Index or VIX—a measure of market expectations of near-term volatility as expressed in S&P 500 index options. The nickname is the "fear index," since many investors equate a rising VIX with greater uncertainty and more questions about what will happen to returns in the near term. But the VIX is not something to fear, even during periods when volatility increases. Here's how we at Astor view the VIX.

- The VIX, we believe, is a way to look at the riskiness of stock market investing. A higher VIX means the standard deviation range is wider, which could be negative or positive. Historically, as we've seen, a significant rise in the VIX often coincides with the stock market going lower.
- In our view, when the VIX is above 20, that's a level associated historically with lower returns in the stock market. Another concern for us is if the VIX goes up by more than 5 points in one day. These are thresholds that trigger a closer watch on our part. But if the VIX goes up by 1 point in a day or increases from, say, 12 to 14, we have fewer concerns.
- While there have been periods of a significantly higher VIX—for example, in 2001 in the aftermath of Sept. 11th, or in during the 2008 financial crisis—short-term spikes in the VIX can occur during periods of uncertainty: for example, the outcome of the Brexit vote or, more recently, with nervousness in the market about the outcome of the presidential election. In our view, if a VIX spike is associated with an "non-event"—that is, a period of uncertainty, but without a change in the prevailing economic and stock market trends—then volatility should quiet down.

While VIX is on our radar, we, at Astor, don't become allow ourselves to get caught up in the emotion. Far more important is keeping a finger on the pulse of the economic trend.

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