Stock Market's "Fear Gauge" Hits 23-Year Low

A lot was written and talked about the CBOE Volatility Index, or **VIX**, this week. On Monday, it closed at 9.77, its lowest level since December 1993. This followed Friday's close by both the S&P 500 and NASDAQ Composite indexes at new all-time highs. In addition, this was the first time in over 10 years the VIX closed below 10 and was only the 11th time it closed below 10 since the index was launched in 1993. The VIX closed at 9.96 on Tuesday and ended the week at 10.40.

The VIX is often referred to as Wall Street's "fear gauge," as it usually moves in the opposite direction of stocks. In other words, when stocks go down, the VIX tends to go up. According to CBOE data, the VIX and S&P 500 have moved in opposite directions of each other about 80% of the time. The VIX reached a record high of 80.86 in November 2008, at the tail end of the financial crisis. The VIX is based on prices of options on the benchmark S&P 500 index and is designed to measure investor expectations for market volatility one month in the future. Basically, the VIX indicates whether traders are paying a little or a lot to protect their portfolios from a drop in the market. The greater the perceived risk of a downturn, the higher the cost of protection and the higher the VIX will be.

As investors, we should be aware of volatility and its impact on investment performance. The book "Maximum Return, Minimum Risk," by AAII founder and chairman James Cloonan, attempts to take the highly technical definitions of risk and present a practical, easy-to-understand discussion of the topic. A PDF version of the book is available to all SSR subscribers online: **http://www.stocksuperstars.com/resources/RiskBook.pdf**.

So what should we take away from the current low levels of the VIX? As my colleague Charles Rotblut wrote in his weekly **Investor Update** column, periods of low volatility can lure investors into thinking they can handle more risk than they actually can. Now is not the time to assess your own personal risk tolerance. Instead, you need to be more concerned with how you will react to the periods of high volatility, especially to the downside. Having a portfolio that will allow you to sleep at night when the market is falling will minimize the risk of making rash portfolio decisions that may do more harm than good in the long run. The goal of the Stock Superstars Report is to create a risk-minimized portfolio that is diversified across investment styles as well as sectors and industries that will still outperform the overall market in the long term.

Earnings Season Update

We are four-fifths of the way through the current earnings season for the SSR tracking portfolio.

This week, three companies in the portfolio announced their results for the first calendar quarter of 2017. Two of the three exceeded their consensus estimate.

Through the end of this week, 29 of the 36 stocks in the SSR portfolio have reported their quarterly results for the current earnings season. Twenty-five, or 86% of those companies, have reported positive earnings surprises, while four companies reported earnings that fell short of estimates. So far for this earnings season, the median earnings surprise for the SSR companies is +4.3% and the average surprise is +5.8%.

Wayne A. Thorp, CFA
Senior Financial Analyst, AAII
SSR Investment Committee
wayne@aaii.com
@WayneTaaii

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The Stock Superstars Report (SSR) publication was developed to educate individual investors on how to build a stock portfolio using a mix of strategies. The SSR is designed to provide all the information you need to manage a stock portfolio as well as to teach you about timely investment principles relating to the SSR portfolio and stock investing in general.