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Intertemporal relations between the market volatility index and stock index returns

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Abstra

We exan ... s Exchange (CBOE) r ... 00 indexes among t ... n VIX and to investiga ... folio insura ... bulence. We find ... novations) in VIX ar ... ngth of contemp ... egime of VIX, and ... volatile. In fact, dur ... was the most do ... a strong asymme ... VIX, suggesting that VIX is more of a gauge of investor fear and portfolio insurance price than investor positive sentiment. The response of VIX to negative changes in market returns was the highest during 2004–2011 when VIX was most volatile. This result is consistent with rising portfolio insurance premiums in periods of high market anxiety and turbulence.

Keywords:

VIX | S&P 500 and 100 returns | investor fear gauge | portfolio insurance price | asymmetric relationship

JEL Classification::

G14 | G19 | G10

Notes

[1] A VIX value of more than 30 is often considered to be high and outside of the normal range (Whaley, 2000). Practitioners often think that a VIX below 30 means that stock market is relatively stable, while a VIX above 30 reflects a sense of panic or capitulation (Ghosh, 2009).

[2] Coeffic stically significa f lead and lag abso hese coefficie .

[3] We also 2006 to 30 June 201 arted trading on 2 here) are virtua 011 (i.e. 2004–20

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