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Using VIX data to enhance technical trading signals

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Abstract

The purpose of this article is to provide new insights into the relationship between technical analysis and implied market volatility (VIX) by calculating technical trading rules with the VIX price data, as opposed to the stock prices. Three trending trading rule signals are calculated on the prices of three major US indices and the VIX prices. The results reveal that the trading signals calculated with the VIX level provide large, statistically significant profits that are in excess of the profits from the traditional computation. Sub-period analysis reveals that technical trading rules were most (least) profitable during the period with the highest (lowest) volatility levels.