PhaseTrader® Indicators

Accumulated Volatility Indicator

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Accumulated Volatility calculations begin with a downdraft of predetermined size (2 stdev used below). The calculation can be set to end with a similar reversal (2 stdev used below), or after a preset number of bars. If no endpoint condition is set, the calculation ends when the market returns to the pre-drawdown price. The chart on this page displays accumulated real volatility points, but the indicator can also be set to display accumulated VIX points.

Calculations on this chart span an important market correction during February 2018 that dropped the S&P 174 points over 2 trading days (Feb. 2, Feb. 5). The indicator reveals a series of significant drawdowns beginning during the January rally – the first hint that a correction was approaching. Although the Feb. decline occurred in 2 large phases (583 points and 473 points), stocks remained unstable, posting 2 additional large declines before the end of March (951 points, 373 points). The large number of accumulated volatility points during March highlights continued instability of the S&P.
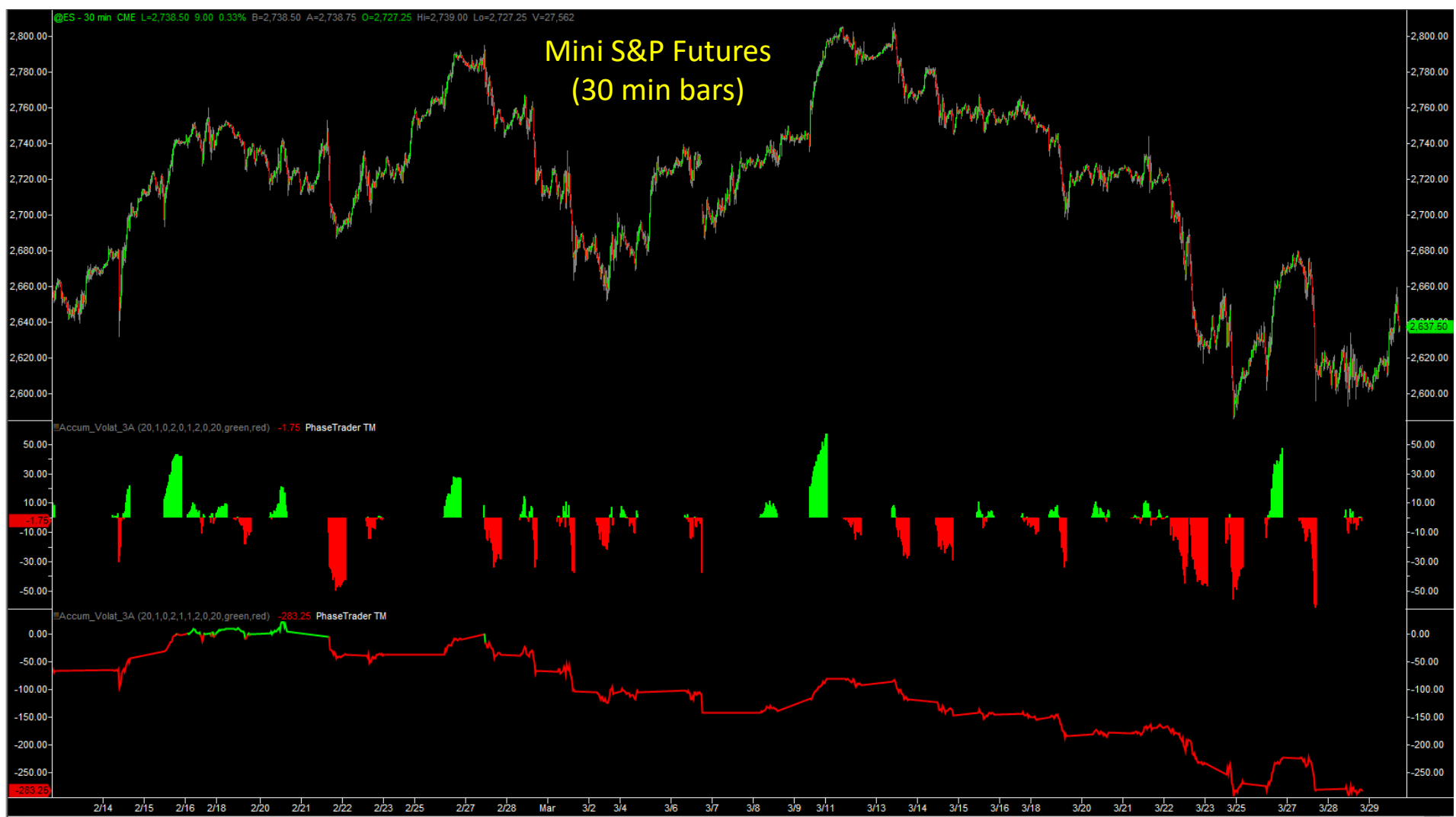
The market began to stabilize in April, both in terms of the number of accumulated realized volatility points and spacing between drawdown events. These dynamics marked the end of the February drawdown event that lasted until May. Investors often pursue "buy the dip" strategies. Accumulated volatility can be configured to analyze such strategies (next slide).

S&P (120 min bars)
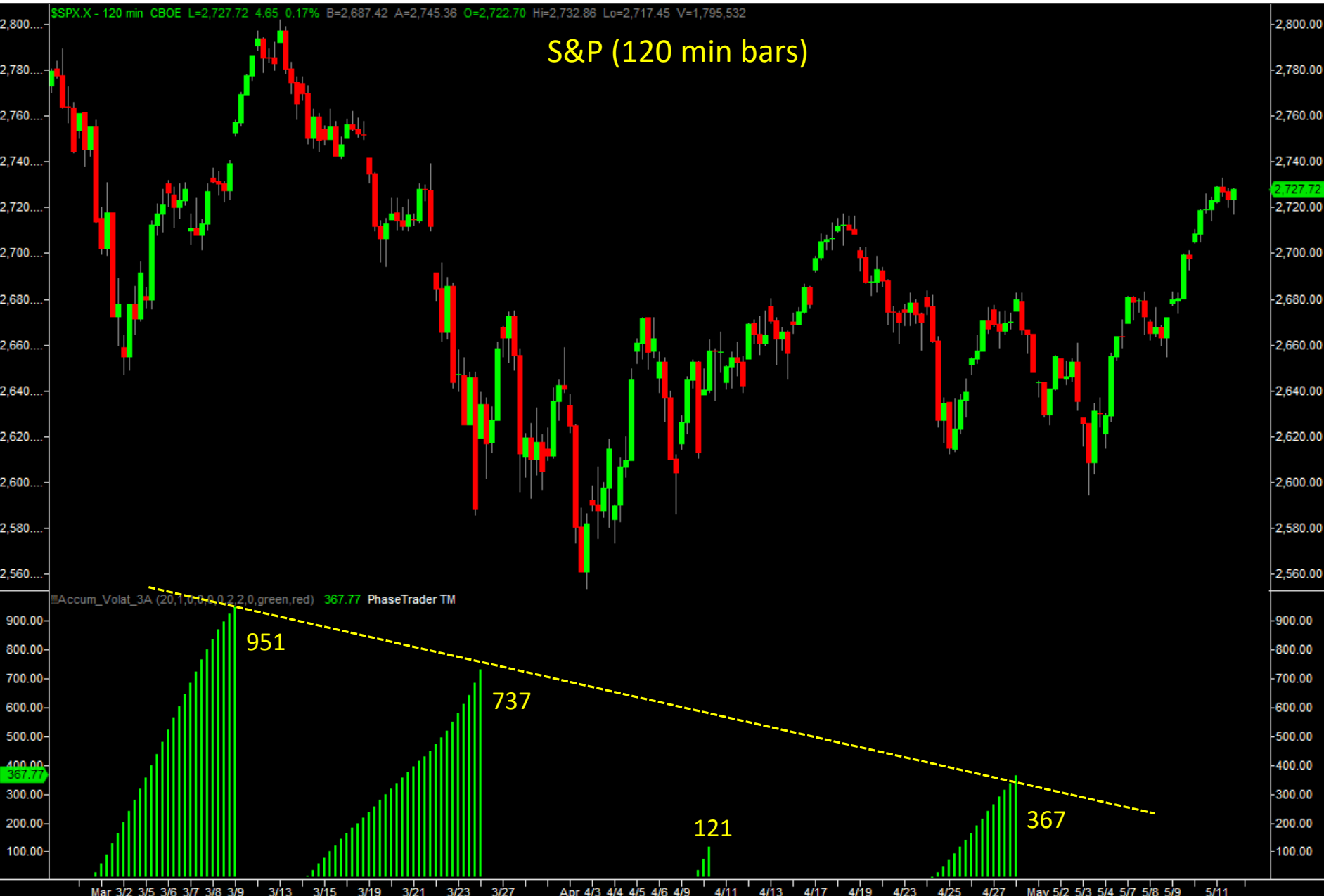
This chart tracks results for a strategy that sells the E-Mini S&P futures contract on the first bar following each 2 standard deviation decline and keeps the trade open until the next 2 stdev upward price spike. More than 240 points of profit are generated during the timeframe which begins on 2/1 and ends on 4/1. In this particular timeframe, "buy the dip" strategies failed completely. The histogram chart (upper trace) records individual events; the lower chart continually sums results.

Mini S&P Futures (120 min bars)
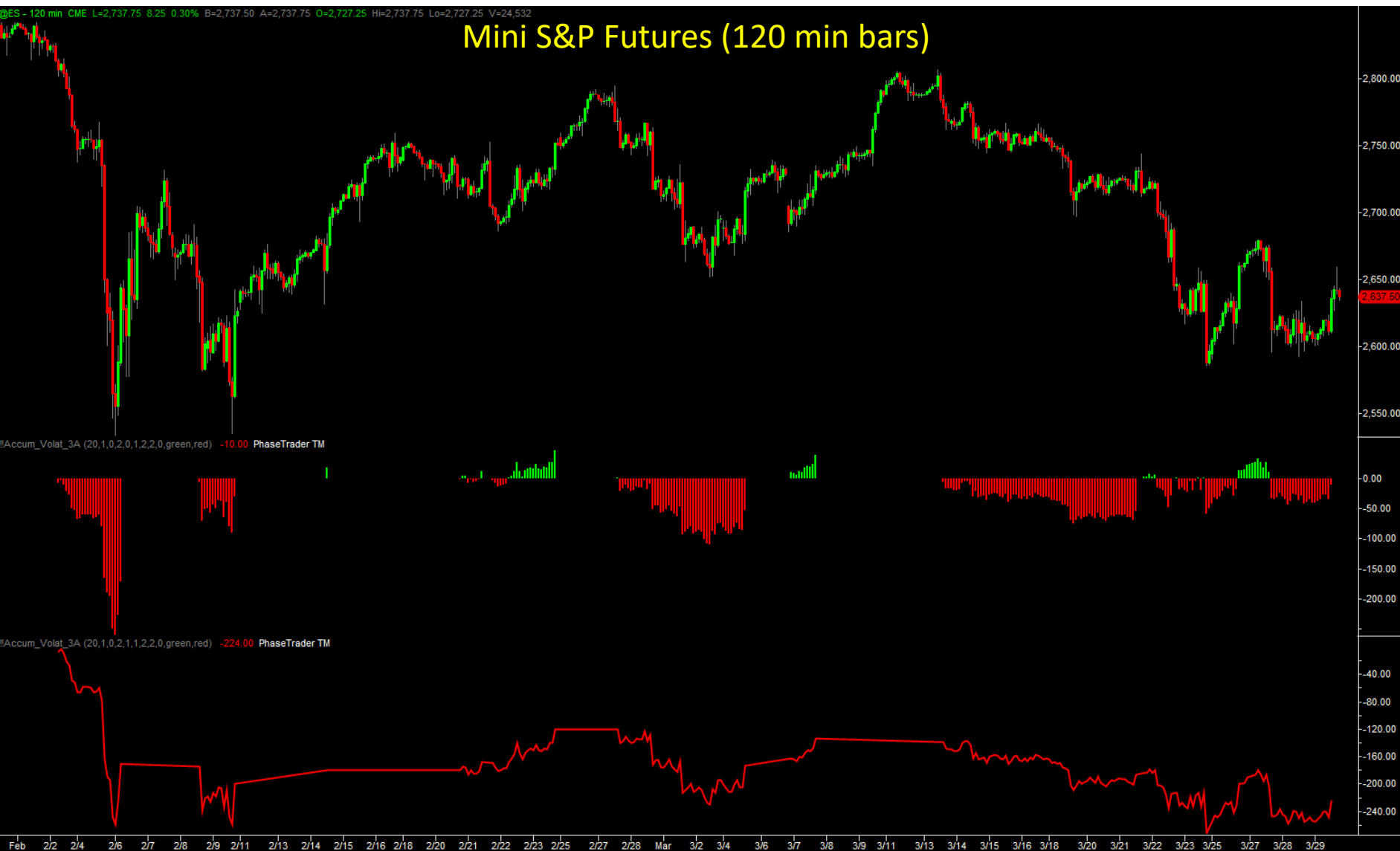
This version of the indicator was configured to test a similar strategy using 30-minute bars. Beginning after the Feb 5th drawdown and continuing through the end of March, the strategy sells every 2 standard deviation decline and holds the trade open for 20 bars (10 hours). Blindly following these rules generated 283 total points or $14,150 per contract over a timeframe of 7 weeks. Overall, the S&P was unchanged across the timeframe. Rules-based trading strategies can also be used to identify markets that are shifting toward or away from mean regressing behavior.

Mini S&P Futures
(30 min bars)

End