

PhaseTrader®
Indicators

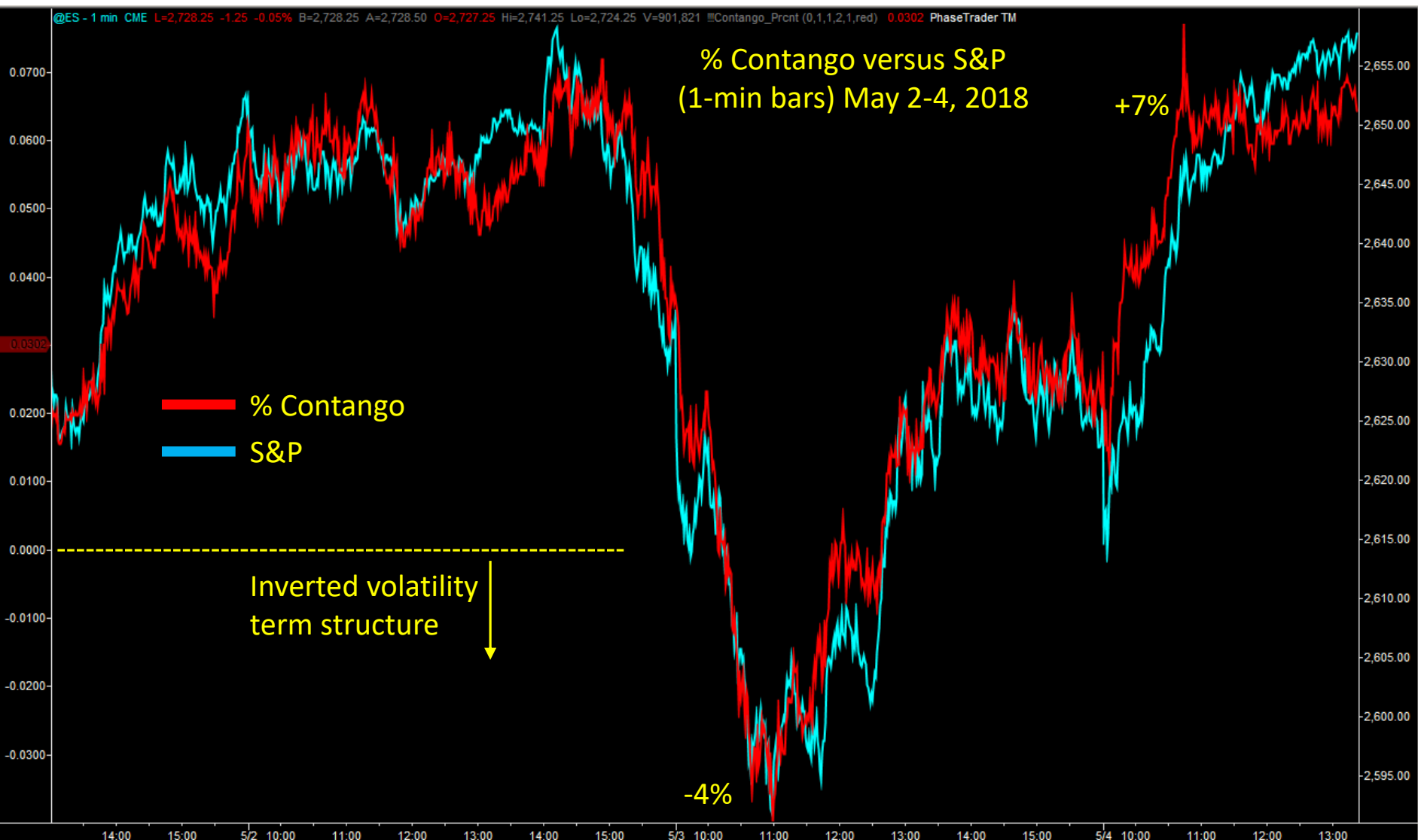
Contango_Prcnt Indicator

Homepage: <https://phasetraderindicator.com>

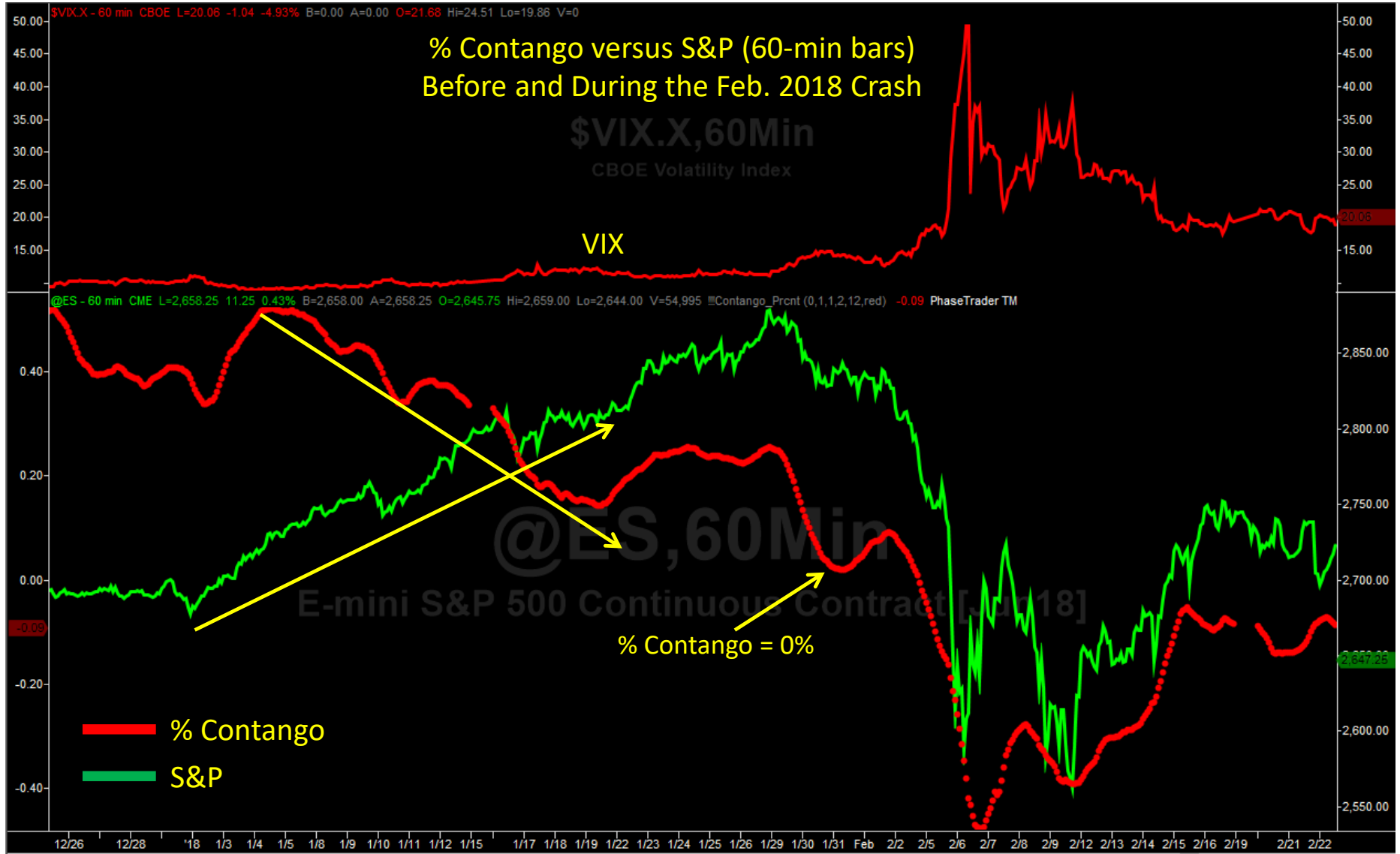
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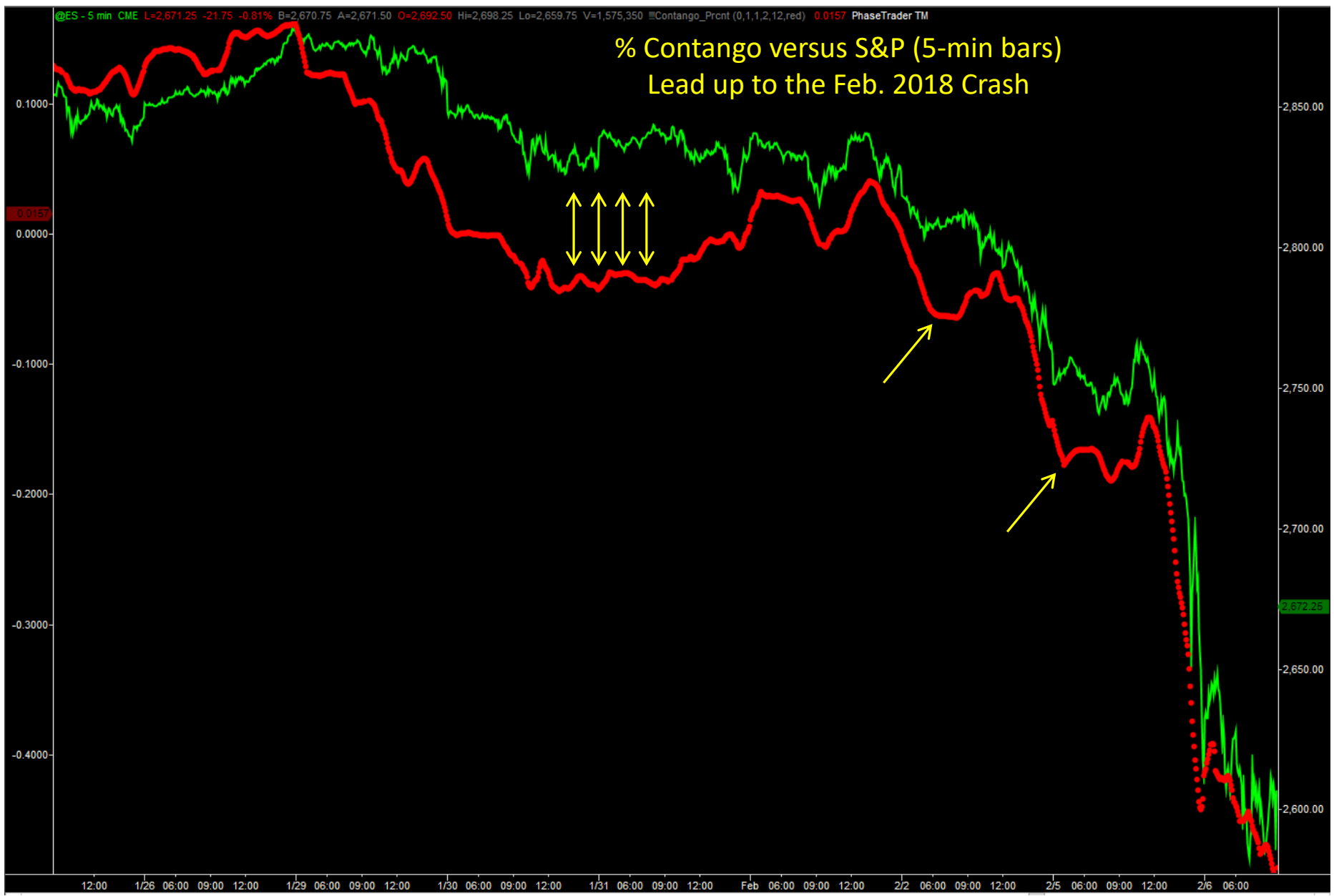
The VIX index, options, futures, ETFs, options on ETFs, and options on the S&P are all related in ways that prevent riskless arbitrages. Institutions use these dynamics to “game” the system by constructing large complex positions that drive the market up or down. Contango_Prcnt takes advantage of these dynamics by tracking subtle distortions in the volatility futures market to identify key market trends and reversal points. This chart highlights the close relationship between Percent Contango (red) and the S&P (blue). When the term structure of volatility inverts (bottom of chart), the indicator tends to reverse sharply and the market bottoms out. A strong rally usually follows, until Percent Contango renormalizes at its recent high (+7% in this example).



Percent Contango presents a characteristic signal when a crash is approaching. This 60 minute chart highlights the downward slope that began in mid January '17 and continued through the February collapse. The Percent Contango indicator fell from a very strong +40% to 0% as volatility term structure collapsed in late January – one week ahead of the February collapse. Volatility term structure bottomed out on Feb. 6 (the day after the initial crash) and volatility dynamics remained sharply negative, even after the second correction that ended on Feb. 9. Stocks finally stabilized when Percent Contango turned positive in mid April. Investors use this type of information both for short-term trading and to make long-term decisions based on overall market stability.



Between 1/29 and 2/2 as the S&P began to decline, Percent Contango dipped sharply, sending a technical signal that a larger correction was forming. Follow on term structure inversions appeared on Feb. 2nd and just ahead of the collapse on Feb. 5.



End