

How to Tell When Fear May be Ready to Subside

With 80% accuracy, we can predict reversals after major spikes in volatility.

In fact, we can do so just by paying close attention to relative strength (RSI), Bollinger Bands, Full Stochastics, and Williams' %R, which helps us spot excessive fear in the market.

For example, here's a two-year chart of the VIX with those very technical indicators.

For one, when the VIX challenges or penetrates its upper Bollinger Band, it's considered overbought, and begins to pivot lower shortly after.

Two, we can confirm the VIX is overbought with RSI at or above its 70-line. Three, we can confirm it's overbought again with Full STO at or near its 80-line. Four, we can confirm further with W%R at or above its 20-line.

When these four indicators agree in overbought territory, about 80% of the time, the VIX will often pivot lower. When that happens, we'll typically see a rebound in the Dow too, which we can profit from using a DIA call for example.

It's one of the strategies we use in our News Event Trade Alert program.

