Anticipatory Momentum: How to Trade the 2020 Presidential Election

The next time it snows, stand at the top of a hill with a small snowball.

As you begin to roll it down the hill you'll notice your small snowball begins to become bigger and bigger. It begins to build momentum, and begins to attract even more attention.

The same thing happens with stocks.

If we can spot a potential story ahead of the herd, we can take a position and wait. We can get a jumpstart with our snowball. Then, as other investors begin to wake up to opportunity, our snowball gets bigger and bigger, picking up momentum, attracting more attention.

It's a technique referred to as anticipatory momentum.

One of the best ways to highlight anticipatory momentum is with the Volatility Index (VIX), especially as we near presidential elections.

Four of the best ways to profit from these spikes include the use of:

- The Ultra VIX Short-Term Futures ETF (UVXY)
- The Velocity Shares Daily 2x VIX Short-Term ETN (TVIX)
- The iPath S&P 500 VIX Short-Term Futures (VXX)
- And put options on the DIA

You see, as we get closer to the date of election, volatility tends to explode higher. For example, right before the 1992 election, the VIX exploded from a low of 12.47 to 20.51. At the same time, the Dow Jones slipped from a high of nearly 3,400 to less than 3,100, handing investors the opportunity to trade uncertainty ahead of elections.

Not only did traders have an opportunity to profit from a move in the VIX, they also had an opportunity to profit from a 300-point move lower with a put option.

In 1996 (Clinton v. Dole), the VIX exploded from 13.70 to nearly 21 again. The Dow would slip from a high of 5,762 to a low of 5,550, only to recover shortly after.

Again, we could profit from a spike in the VIX, and a DIA put option.

In 2000 (Bush v. Gore), the VIX popped from 16.5 to nearly 32. The Dow would slip from 11,400 to a 9,655. Again, investors were offered an opportunity to make money from uncertainty on the short-side of the market, and on the long side of volatility.

In 2004 (Bush v. Kerry), the VIX didn't move up by much, jumping from 13 to 17. The bigger opportunity this year was on the short side of the DIA, as the DJIA fell from 10,400 to 9,700.

In 2008 (Obama v. McCain), the VIX exploded from 20 to 90, as the Dow plummeted to 7,500. Of course, much of this was also due to subprime fallout this particular year. Still, it offered us another opportunity in an election year.

By 2012 (Obama v. Romney), the VIX jumped from 13 to 20. The Dow didn't fall by much. Still, we were offered a good profit opportunity. By 2016 (Trump v. Clinton), the VIX popped from 12 to more than 22 – again offering opportunity.

As we now near the 2020 election cycle, we expect to see a sizable move in the VIX.

Even the DJIA may move lower on considerable uncertainty.

Interesting to note, once uncertainty began to fade after each election, so did market fear. As that happened investors could trade the long side of the market, and the short side of volatility.

It's just something to keep in mind ahead of the 2020 election.