Twitter Thread by Shai | Power trading with Orderflow

Shai | Power trading with Orderflow
@Am_Shai

We are living in days of high #Vix with added volatility & movement in our favorite indices

There have been strange opens & very quick movements some to profits, others to losses

There is always a message in the data. Data speaks

Let's explore what Vix wants to tell us



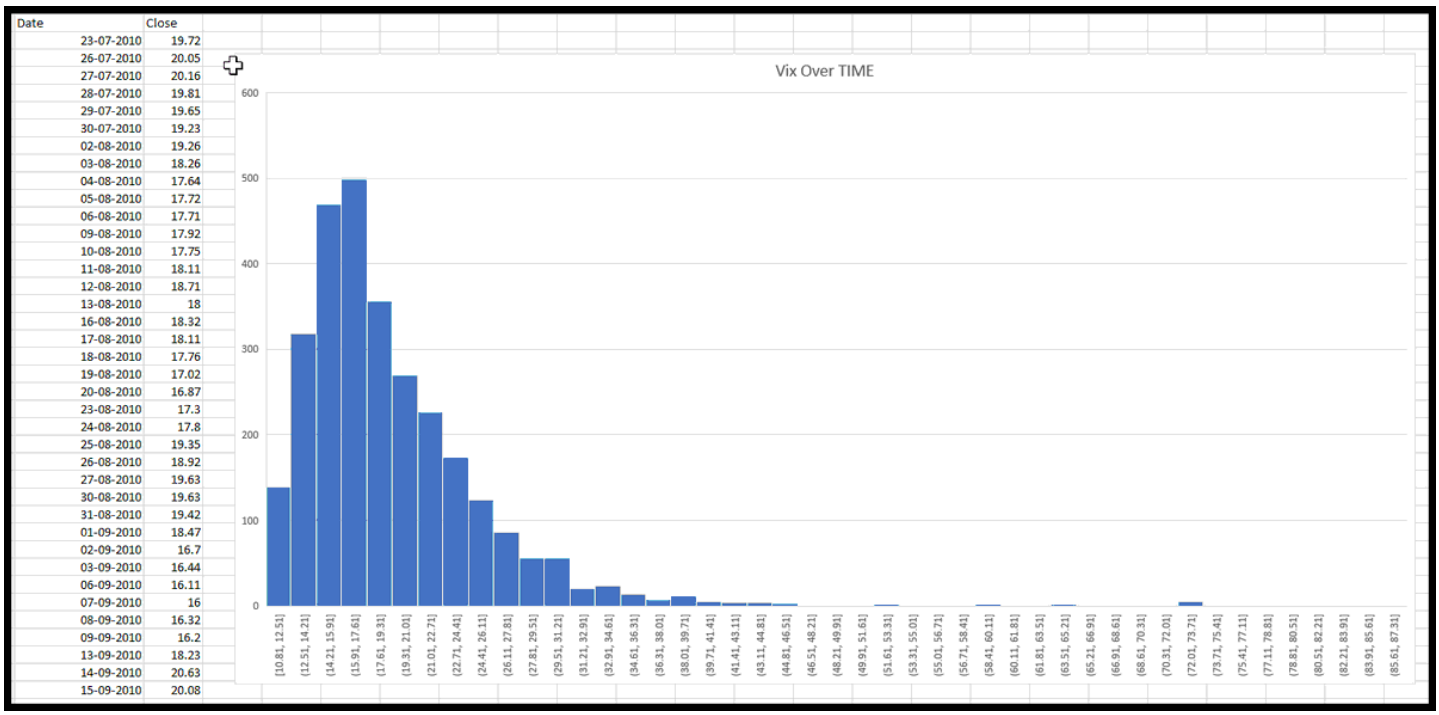
Vix is at 25- 30 currently.

Is this Normal?

Data from 2010 suggests this as an outlier

A vix above 30 has been trading less than 55 times in 3000 sessions!

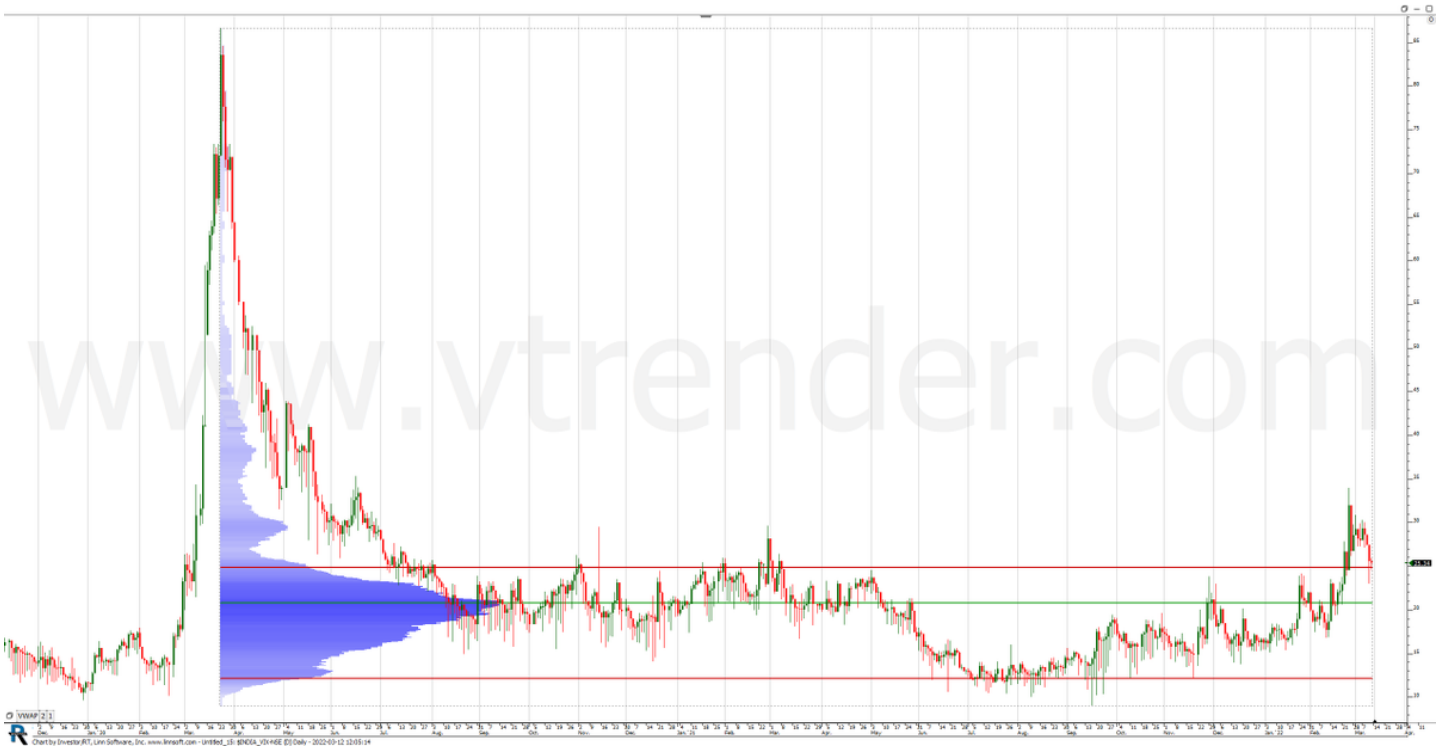
It's a 1.83%



Date	Close
23-07-2010	19.72
26-07-2010	20.05
27-07-2010	20.16
28-07-2010	19.81
29-07-2010	19.65
30-07-2010	19.23
02-08-2010	19.26
03-08-2010	18.26
04-08-2010	17.64
05-08-2010	17.72
06-08-2010	17.71
09-08-2010	17.92
10-08-2010	17.75
11-08-2010	18.11
12-08-2010	18.71
13-08-2010	18
16-08-2010	18.32
17-08-2010	18.11
18-08-2010	17.76
19-08-2010	17.02
20-08-2010	16.87
23-08-2010	17.3
24-08-2010	17.8
25-08-2010	19.35
26-08-2010	18.92
27-08-2010	19.63
30-08-2010	19.63
31-08-2010	19.42
01-09-2010	18.47
02-09-2010	16.7
03-09-2010	16.44
06-09-2010	16.11
07-09-2010	16
08-09-2010	16.32
09-09-2010	16.2
13-09-2010	18.23
14-09-2010	20.63
15-09-2010	20.08

For those who are new to trading , this is a TIME Profile of the VIX from March 2020.

The mode is seen at 18-20 and anything above the red line of 25 is 2nd standard deviation territory for the markets and a change in Vix regime.



Translation - Vix from March 2020 is telling us that if we stay above 1 standard deviation of 25 and continue to do things which you did at mode of 18-20 , you will not get the same results

In other words, if you are making losses, relook at your trading strategies and change.

But this "adjustment" is for the short term only as I mentioned before this Vix event is an outlier .

To cut losses, CHANGE your methods for short term.

You can use the data in VIX to calculate the potential move of the index.

I did this post back in 2010 and another 1 in 2013

You can look up at -https://t.co/vXQRX6n3cb

There are a number of methods to calculate the range using the data from the VIX. I have been using this one for over a decade and prefer this one over the others . I'll try to explain.

You need the price of the previous day and the Vix value .

The #Nifty closed at 16630 with a vix reading of 25.34

I'm looking at weekly expiry for 17th.

(The method is explained in the above post)

The range I get is 17130 on higher side and 16130 on the lower side.

The formula can be taken from the image below

Spot close	16630
Vix	25.34
Days to consider	5
Nos of days in year	355
Adjusted Volatility Period	71
Sq Root of adjusted Vol	8.426149773
Vix/100	0.2534
(vix/100)/sqrt adj vol	0.030073047
spot*vix/adj vols	500.1147752
Higher Range	17130.11478
Lower Range	16129.88522

Roughly a 500 either side of 16630.

Let's see what our wise men in the option market are planning.

The 16600 strike has 252 in the call and 212 in the PUT for a 464 point range.

So they see a range of 465- 500 as well (10% is allowed for 5 days)

	Chg LTP	Strike	Chg LTP	
3 5	↓ -0.95 275.55	16550	↓ -38.7 193.95	
3 5	↑ 2.3 245.9	16600	↓ -38.55 213.35	
75 5	↓ -4.5 218.05	16650	↓ -37.95 235.6	

BUT, what if I want to see what will happen on Monday ?

I just change the "days to consider" to 1 and I get a range of 16853- 16406 for Monday .

What it is telling me now, is that roughly a 225 point move is possible on the same vix and I need to be ready to account for it.

Spot close	16630
Vix	25.34
Days to consider	1
Nos of days in year	355
Adjusted Volatility Period	355
Sq Root of adjusted Vol	18.84144368
Vix/100	0.2534
(vix/100)/sqrt adj vol	0.013449076
spot*vix/adj vols	223.6581268
Higher Range	16853.65813
Lower Range	16406.34187

And I can use the same formula to see what the Nifty can do over the next settlement which is 12 days away

12 days away, we are looking at 17404- 15855 provided VIX does not move up a lot

Option guys are pricing 617 points, which means a lower xix than 25 by 24th Mar

Spot close	16630	16630	16630
Vix	25.34	25.34	25.34
Days to consider	1	5	12
Nos of days in year	355	355	355
Adjusted Volatility Period	355	71	29.58333333
Sq Root of adjusted Vol	18.84144368	8.426149773	5.439056291
Vix/100	0.2534	0.2534	0.2534
(vix/100)/sqrt adj vol	0.013449076	0.030073047	0.046588964
spot*vix/adj vols	223.6581268	500.1147752	774.7744783
Higher Range	16853.65813	17130.11478	17404.77448
Lower Range	16406.34187	16129.88522	15855.22552

A quick look at the same data is telling you that the option market is charging a 120 rupee premium per ATM strike currently for the 17th settlement

This may be to do with the FED event on Wed

To sum up, data through VIX is in the 2nd Sigma mode and hence you need to adjust your methods .

Ranges are higher so your normal formula for stop losses and profits also do not work

Key to life and in trade, is change.

Use the information from data to make a change.