

Has fear in financial markets reached its peak?

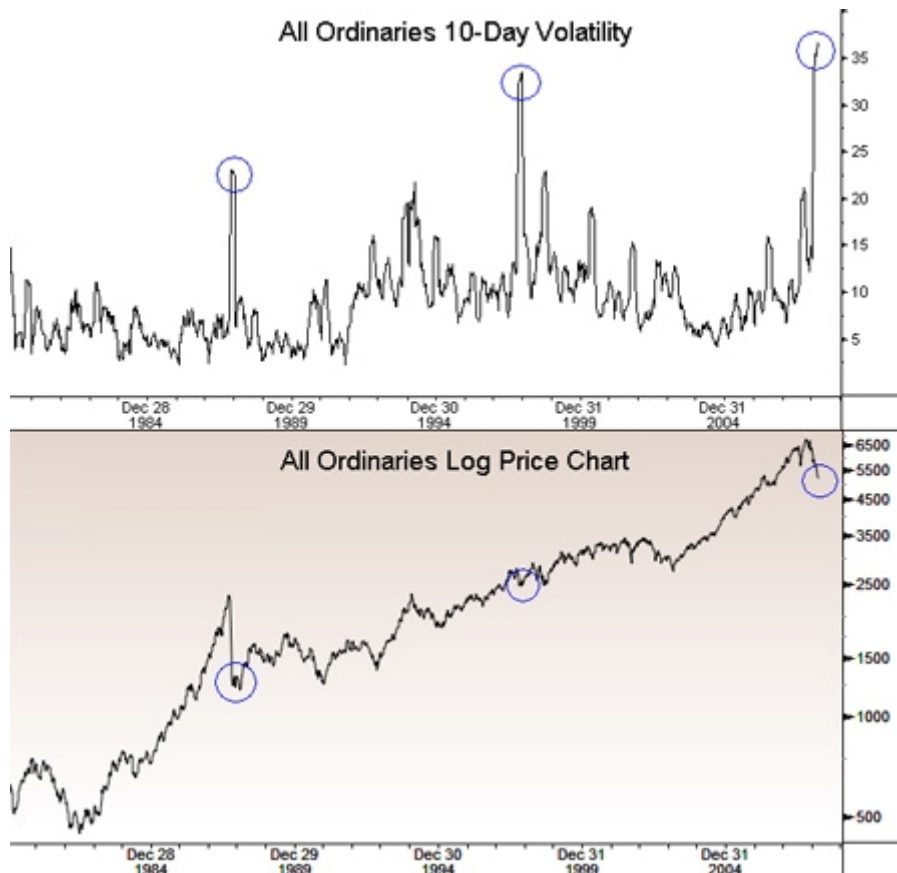


Current charts of volatility show that short term market volatility is at record highs! This can be seen in the top half of the chart below, which shows ten day historic volatility on the All Ordinaries Index since its inception in 1980.

But while high volatility can be a short term trader's paradise, what does it mean for long-term investors?

To answer this question, we overlaid the volatility chart of the All Ords against a log scale price chart, which is shown in the bottom half of the chart below. By comparing the two charts we found a very exciting trend. The vast majority of the major volatility spikes coincided with significant lows in the All Ords, with one notable exception in early 1994, which coincided with a market top.

The volatility picture suggests that we could be on the cusp of another major turning point in the market. While downside risks remain a distinct possibility, given that we are already well off our market's top, it is hard not to adopt an increasingly bullish stance for the short term in the form of a relief rally or short squeeze. Fear at record levels, an almost complete absence of bullish commentary and attractive valuations all suggest that the worst of the selling pressure may be coming to an end.



Volatility in the All Ordinaries is at all time highs. Historically these volatility spikes have often coincided with lows in the market.

Source: wise-owl.com, Bloomberg.



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