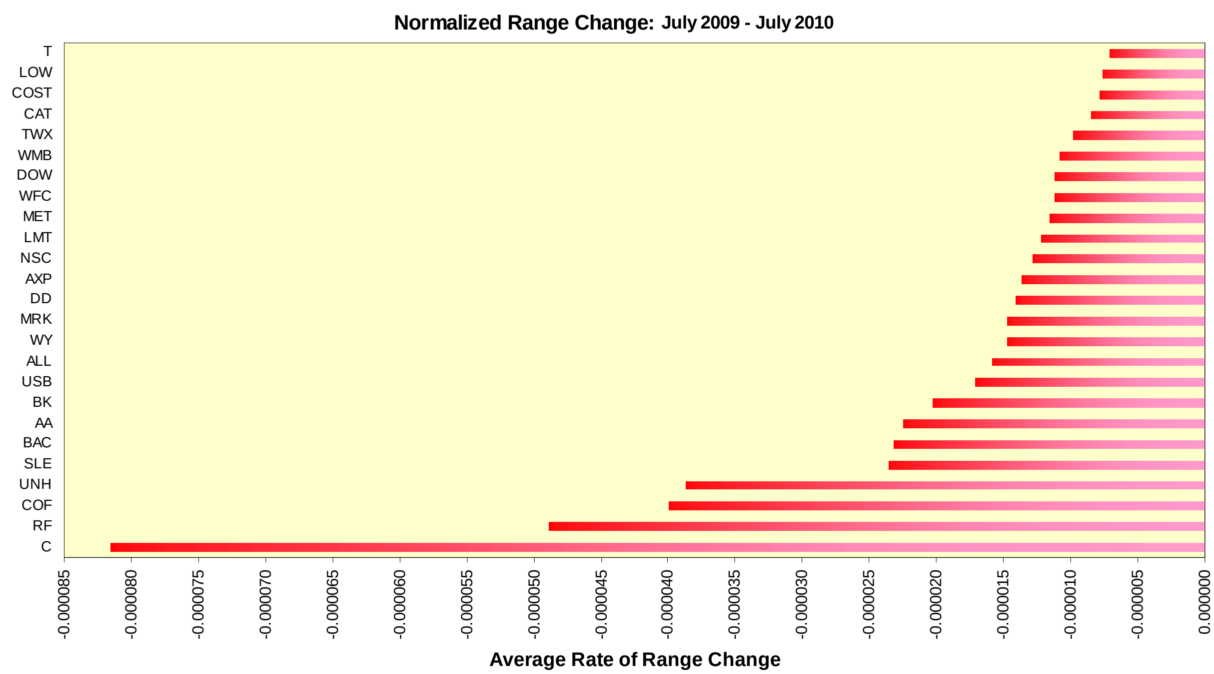
# Trends In Daily Ranges

Last week's announcement by Goldman Sachs they had stubbed their toe in equity derivatives related to volatility trading must have brought something of a knowing smile to many. While I have not shared many thoughts on volatility trading in general and on the VIX in particular – that will come at another time – the whole enterprise has always has struck me as a roundabout way of trading price. If the S&P 500 goes down, the VIX goes up and vice-versa; that is so well-known that if you have an opinion on price, why not simply trade that?

Regardless of implied volatility, let's look at one aspect of historic volatility, normalized daily ranges. I will define these as today's high-low range divided by yesterday's close. The period in question will be the year after the Federal Reserve let it be known in July 2009 they were in no hurry to raise short-term interest rates; the market took off after than in an almost-uninterrupted straight line into October 2009. This is not to be confused with the recent message they are in no hurry to raise short-term interest rates. Some things change; some things remain the same; what are you going to do?

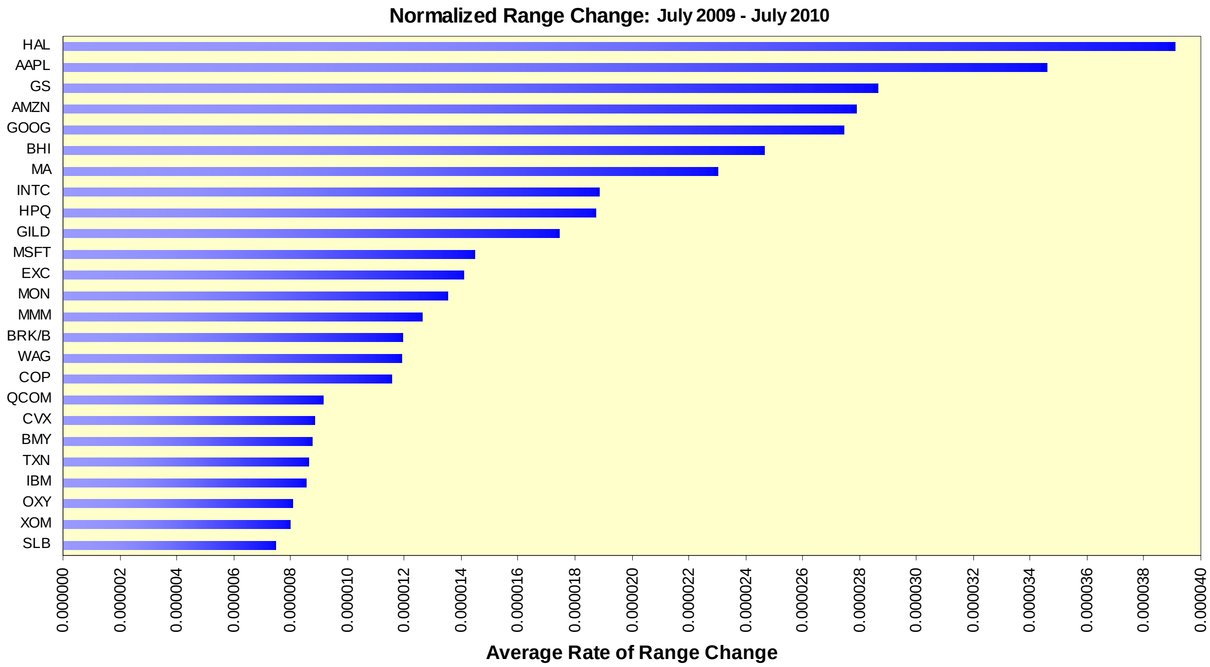
To answer the question of whether these normalized daily ranges had expanded, as many sense they have, I examined the members of the S&P 100 index on the theory this would involve less brute force than examining the S&P 500 or, heaven forfend, the Russell 3000. You have to choose your fights carefully.

The trend over time for these ranges was sorted from expanding to contracting. A rather surprising fifty-seven issues exhibited narrowing ranges; the top 25 of these are displayed below just to make the chart a little more legible.




The most rapidly narrowing normalized daily ranges are in financial issues such as Citigroup, Regions Financial and Capital One. Had the starting date of the analysis been extended back into 2008, the contraction would have been even more striking in this regard.

What about the forty-three stocks whose range expanded over the past year? Here the list is peppered with stocks such as Halliburton, Apple, Goldman Sachs, Google and Baker Hughes. These are event-driven stocks whose ranges could not be compressed by official policies as were the ranges for the financials.




Indexation always changes behavior; we certainly have seen this in the correlation of returns between stocks as they tend to rise and fall together as ETFs and other index instruments demand basket trades. We apparently see this in volatility as well: The more traders get focused on VIX and related futures and options, the more they will focus on the implied volatility and forward-starting volatility of the index and the less on the actual volatility of key member stocks. Thirty-five years after the release of *Jaws*, we still find ourselves learning much of the action occurs beneath the surface.

Indexation aside, the old saw it is a market of stocks and not a stock market is applicable to the world of volatility and option trading, too.