

Market Tumult to Continue

By Kevin Fung

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The volatility and market tumult permeating the markets in recent months is showing no signs of leaving soon. The markets have seen elevated volatility now for nearly two months, and market participants say that we can expect more of the same going forward.

“The thing that drives markets, and the reason the markets act schizophrenic like it has in the last two months, is when there’s uncertainty in the financial world,” said Keith Ross, chief executive officer of PDQ Enterprises, the operator of the PDQ alternative trading system. “Uncertainty is very troubling for the markets. When you’re trying to run a business, you make assumptions about what you can do, and plan accordingly. When you can’t make those decisions, it makes it that much more difficult.”

The most recent surge in volatility came as investors reacted to news of the Federal Reserve looking to drive down interest rates, which has been dubbed by some as “Operation Twist,” as well as the ongoing debt issues in Europe.

“Last week, we had five up days in a row, and we thought most of these issues were resolved,” said Ross. “Then the Fed announces the twist. It’s like the doctor gave us medicine, but no one knew we were that sick. It is a more uncertain world. Then when the markets move hundreds of points in a day, that makes the uncertainty worse.”

The Chicago Board Options Exchange’s Market Volatility Index, or VIX, has been on a wild ride in recent weeks, rising from about 18 in late-July to as high as 48 on Aug. 8, as the markets reacted to the debt ceiling situation and the Standard & Poor’s downgrade of U.S. debt. It then began a trend of slowly declining before rocketing up again every few days or so. The last time the VIX was under 30 was Aug. 3. The VIX, also known as Wall Street’s “fear gauge,” measures the implied volatility of the S&P 500 index.

According to BATS Global Markets, equity trading volume has also declined since reaching a peak of nearly 18 billion shares on Aug. 8. Volume declined by more than half during the following week, with about 7.3 billion shares changing hands on Aug. 17. About 10.6 billion shares were traded per day on average in August. For the month-to-date in September, ADV has fallen to just under 8 billion.