How To Make Big Money Trading In All Financial Conditions

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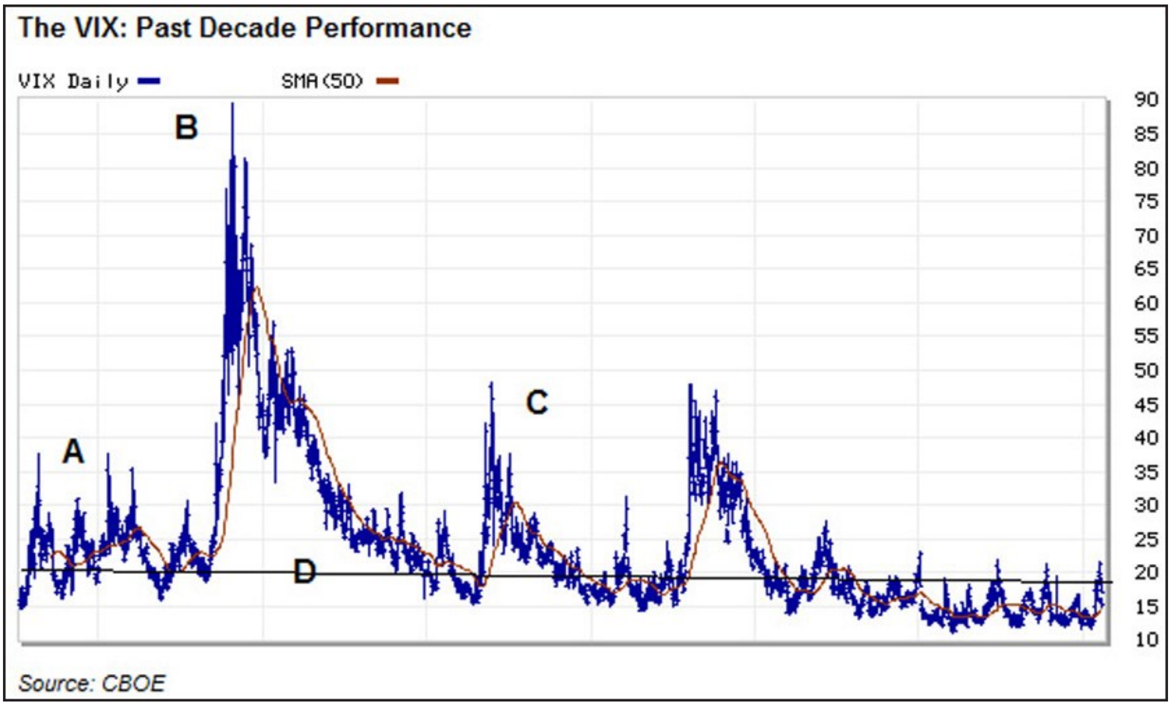
SAMPLE

Changing Volatility Patterns

Only God moves in mysterious ways: pretty much everything else works to patterns. Despite what some people might say even in periods of low market volatility (the measure of deviation of market prices from the average mean price over a specified period of time, of course), **there is always some asset, somewhere in the world, that is oscillating in price sufficiently that you can trade it to make serious money every day of the week that a market is open.**

The trick is to know what the asset is, whether it is trading generally higher or lower than it should be on a fundamental and technical basis (and for what reasons) and to have the skill, speed of thought and tenacity to stick it out, through hedges where appropriate, when everybody else thinks that you are wrong.

In broad terms, the first thing to be aware of is that **ever since the onset of the global financial crisis in 2007/2008, broad market volatility has settled at much lower average levels than was the case before the crisis.**



[Chart Key:
A= Asian Crisis
B = Global Financial Crisis
C = Eurozone periphery sovereign crisis
D = Average volatility]

The Changed Role Of Central Banks Since The Crisis

The reason for this – and this is still a key factor of which to be aware, as it forms the backdrop to the current trading environment – is the changing role of the world's major central banks since the world's financial system nearly collapsed.

Prior to the financial crisis, the world's central banks' principal, and often sole, responsibility with regard to their currencies, was overall price stability. Since then their remits have broadened out to include a range of socio-economic targets, such as employment levels, interest rates, inflation and so forth.

As a corollary of these new concerns, **many central banks, particularly those of the G10, have been engaged in 'smoothing operations' of FX volatility since the crisis, sometimes working in tandem.**

In practical terms, if you are the Bank of England and you are looking to create a broad economic climate that is conducive to increasing employment levels, for example, then you do not want sterling to keep appreciating beyond a certain level as, if it does, British goods and services become far more expensive abroad relative to those of Britain's competitors, exports decline and businesses lay off workers.

This explains why **the global Volatility Index – 'VIX' – found on the Chicago Board Options Exchange (CBOE) website, under the symbol 'VIX' (specifically:**

http://www.cboe.com/micro/VIX/vixintro.aspx) has spent most of the recent past trading at, or near to, historically low levels.

However, it is equally important to realise that even in times when overall market volatility may be extremely historically low, this **does not reflect a multitude of much higher intra-regional volatility offering pockets of value in different asset classes around the globe (we are coming onto these).**

The VIX itself, for example, only measures the implied volatility of the options bought and sold on the S&P500 US stock index, which is generally regarded as being the asset most susceptible to changes in risk appetite by investors.

It is even more important for the retail trader, though, to understand what the individual global central banks are hoping to achieve in broad terms and how this translates into their currencies, because **although a currency might not be moving up and down a lot it might still be headed in one direction overall, allowing for a pure 'value' or 'momentum' (directional) trade that can make a lot of relatively risk-free money.**