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What is VIX?

The ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

There are three variations of volatility indexes: the VIX tracks the S&P 500, the VXN tracks the Nasdaq 100 and the VXD tracks the Dow Jones Industrial Average.

The first VIX, introduced by the CBOE in 1993, was a weighted measure of the implied volatility of eight S&P 100 at-the-money put and call options. Ten years later, it expanded to use options based on a broader index, the S&P 500, which allows for a more accurate view of investors' expectations on future market volatility.

The Right Timing To Enter Debt Markets

Market timing has been a debatable subject in the world of finance. While most of the experts argue that investors should not time the market, the scope of the coverage of market timing remains confined to the equity and equity related instruments. While timing equity market is indeed challenging task and can often not produce desired results, isn't it possible to time the market in other products such as debt instruments Can an investor time the market in debt products? Is it possible to make money by timing the market? The idea behind asking all these questions is to spot the right opportunity available in the market for investments in debt products.

But before moving ahead let us understand that timing market in debt products has some constraints. Secondary market is very shallow for debt products but primary market is extremely active. Even during last few years of recession when the IPO market in equity was down, there was flooding of offers in debt market. So there were tax free bonds, NCDs of companies and other debt instruments available for investments. Giving this, how can an investor benefit from timing of debt market and what should he do? Let us look at how debt market can provide better opportunities in terms of timing.

Debt market is relatively much more stable than equity market:

The return or yield in the debt market shows movements which are much more stable than equity market. Unlike steep fall in the equity market overnight, debt market shows limited movement during a day or week. Such fall does not impact investors much.

For instance, in the current scenario in India, the rate of interest and the corresponding yield shows movement significantly only when some critical policy measures are announced by the central bank or the government. This is something known in advance in many cases as the calendar of events are known. Because of stability, the movement in the debt market can be easily predicted.

Since debt market does not have depth and transaction costs are high, timing debt market won't be easy.

Debt market replicates history more frequently:

Debt market shows more consistent trend which reflects past. This means it is easy to identify whether rate of interest has peaked or not. This is turn makes prediction relatively easy. If the rate of interest goes up beyond a point, it is easy to lock your investment in debt product at that level.
In view of above two characteristics of debt market, it becomes important that investor should look at some key indicators of timing debt market so that wealth maximization can be done by selecting right investments. Market timing can happen primarily in primary market only.

At the current juncture, the rate of interest in India is a very high level. There are many debt products being issued at a very high rate of interest. It will make sense for investors to lock in some money in these high yield debts for a long term as the rate of interest is likely to fall in the time to come, if not in the immediate near term. Those who had missed investments in tax free bonds can still buy these bonds from secondary market and add to their portfolio. The bonds are available for buying on National Stock Exchange (NSE). There are investment options which are available at a rate of 8 plus percent as tax free for a fairly long period of time which goes as long as 20 years.

Apart from the current opportunities available, it is also important that investors should stop high yield quality debt products from time to time invest in them. Every matured economy in the world has low rate of interest as inflation has been controlled in these countries. As India becomes developed, getting a rate of 8 plus percentage tax free returns may not be easy. So it makes to lock money in these high yield debt instruments. It is possible that after 5 to 7 years, debt may help you to beat inflation and you need not run after equity for that.

VIX values greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets.

India VIX

India VIX is a volatility index based on the NIFTY Index Option prices. From the best bid-ask prices of NIFTY Options contracts, a volatility figure (%) is calculated which indicates the expected market volatility over the next 30 calendar days.

India VIX uses the computation methodology of CBOE, with suitable amendments to adapt to the NIFTY options order book using cubic splines, etc.

What is Dark Pool

Dark pools are an ominous-sounding term for private exchanges or forums for trading securities; unlike stock exchanges, dark pools are not accessible by the investing public. Also known as "dark pools of liquidity," they are so named for their complete lack of transparency. Dark pools came about primarily to facilitate block trading by institutional investors, who did not wish to impact the markets with their large orders and consequently obtain adverse prices for their trades. However, their lack of transparency makes them vulnerable to potential conflicts of interest by their owners and predatory trading practices by some high-frequency traders.

Rationale for dark pools

The current controversy surrounding dark pools may lead one to think that they are a recent innovation, but they have actually been around since the late 1980s. Non-exchange trading in the U.S. has surged in recent years, accounting for about 40% of all U.S. stock trades in 2014 compared with 16% six years ago. Dark pools have been at the forefront of this trend towards off-exchange trading, accounting for 15% of U.S. volume as of 2014, according to figures given by industry insiders.

Why did dark pools come into existence? Consider the options available to a large institutional investor who wanted to sell 1 million shares of XYZ stock prior to the advent of non-exchange trading.

This investor could either (a)work the order through a floor trader over the course of a day or two and hope for a decent VWAP (volume weighted average price); (b) split the order up into say five pieces and sell 200,000 shares per day, or (c) sell small amounts until a large buyer could be found who was willing to take up the full amount of the remaining shares. The market impact of a 1-million sale of XYZ shares could still be sizeable regardless of whether the investor chose (a), (b), or (c).

since it was not possible to keep the identity or intention of the investor secret in a stock exchange transaction. With options (b) and (c), the risk of a decline in the period while the investor was waiting to sell the remaining shares was also significant. Dark pools were one solution to these issues.

Why Use a Dark Pool?

Contrast this with the present-day situation, in which an institutional investor uses a dark pool to sell a 1 million share block. The lack of transparency actually works in the institutional investor's favour, since it may result in a better realized price than if the sale was executed on an exchange. Note that as dark pool participants do not disclose their trading intention to the exchange prior to execution, there is no order book visible to the public. Trade execution details are only released to the consolidated tape after a delay. The institutional seller has a better chance of getting a buyer for the full share block in a dark pool, since it is a forum dedicated to large investors. The possibility of price improvement also exists if the mid-point of the quoted bid and ask price is used for the transaction. Of course, this assumes that there is no information leakage of the investor's proposed sale, and that the dark pool is not vulnerable to high-frequency trading (HFT) predators who could engage in front-running once they get a whiff of the investor's trading intentions.

Pros

Reduced market impact:

As noted earlier, the biggest advantage of dark pools is that market impact is significantly reduced for large orders.

Lower transaction costs:

Transaction costs may be lower, since dark pool trades do not have to pay exchange fees, while transactions based on the bid-ask mid-point do not incur the full spread.

Cons

Exchange prices may not reflect the real market:

If the amount of trading in dark pools owned by broker-dealers and electronic market makers continues to grow, stock prices on exchanges may not reflect the actual market. For example, if a well-regarded mutual fund owns 20% of company RST's stock and sells it off in a dark pool, the sale of the stake may fetch the fund a good price, but unwary investors who have just bought RST shares will have paid too much for it, since the stock could well collapse once the fund's sale becomes public knowledge.

Pool participants may not get the best price:

The lack of transparency in dark pools can also work again a pool participant, since there is no guarantee that the institution's trade was executed at the best price. Lewis points out in "Flash Boys" that a surprisingly large proportion of broker-dealer's dark pool trades get executed within the pools – a process known as internalization – even in cases where the broker-dealer has a small share of the U.S. market. The dark pool's opaqueness can also give rise to conflicts of interest if a broker-dealer's proprietary traders trade against pool clients, or if the broker-dealer sells special access to the dark pool to HFT firms.

Vulnerability to predatory trading by HFTs:

The recent controversy over dark pools has been spurred by Lewis' claims that dark pool client orders are ideal fodder for predatory trading practices by some HFT firms, which employ tactics such as "pinging" dark pools to unearth large hidden orders, and then engage in front running or latency arbitrage.

The same has been alleged via a lawsuit against Barclays that they allowed HFT on dark pool by predatory traders thus flouting invester safety rules.

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