Volatility Trading Checklist

Signal Pilot Education Hub

⚡ Volatility Trading Checklist

Lesson 32: Volatility Trading

This checklist helps you trade volatility regimes, VIX patterns, and options strategies to profit from volatility expansion and contraction.

📋 Pre-Trade Volatility Analysis

VIX Analysis

- [ ] **Check current VIX level** - < 15 (low), 15-25 (normal), 25-35 (elevated), > 35 (crisis)

- [ ] **Compare VIX to historical average** - Is VIX above/below 20-day mean?

- [ ] **Look at VIX term structure** - VIX futures contango (calm) vs. backwardation (fear)

- [ ] **Identify VIX spike patterns** - Spikes > 20% intraday = panic (potential reversal)
- [ ] **Check VIX vs. SPY divergence** - VIX flat but SPY dropping = complacency (risk)

Realized Volatility (Historical Vol)

- [ ] **Calculate 20-day HV** - Compare to current implied volatility (IV)
- [ ] **Check HV vs. IV spread** - If IV > HV, options expensive (sell premium)
- [ ] **Measure volatility percentile** - Is current vol in top 25% or bottom 25%?
- [ ] **Identify volatility regime** - Low vol (< 1 SD), Normal, High vol (> 1 SD)

Bollinger Bands & ATR

- [ ] **Check Bollinger Band squeeze** - Bands narrowing = low vol (potential breakout)
- [ ] **Identify Bollinger Band expansion** - Bands widening = rising vol (trend move)
- [ ] **Measure ATR vs. 50-day average** - ATR > avg = high vol, < avg = low vol
- [ ] **Look for ATR compression** - Falling ATR = coiling (precedes expansion)

Volatility Regime Identification

- [ ] **Low vol regime (<15 VIX)** - Sell premium, use tight stops, expect grind
- [ ] **Normal vol (15-25 VIX)** - Balanced strategies, standard sizing
- [ ] **High vol (25-35 VIX)** - Buy premium, use wide stops, reduce size
- [ ] **Crisis vol (>35 VIX)** - Stay in cash or hedge with puts

🎯 Volatility Trading Strategies

Low Volatility Strategies (VIX < 15)

- [ ] **Sell credit spreads** - Collect premium in low-vol, high-probability setups

- [ ] **Use iron condors** - Profit from range-bound, low-vol environment

- [ ] **Sell covered calls** - Generate income on long positions

- [ ] **Watch for squeeze breakout** - Bollinger squeeze = prepare for expansion

- [ ] **Avoid long options** - Premium expensive relative to realized moves

Volatility Expansion Strategies (VIX Rising)

- [ ] **Buy straddles/strangles** - Profit from large moves in either direction

- [ ] **Long VXX/UVXY (VIX ETFs)** - Direct volatility exposure (short-term only)

- [ ] **Buy protective puts** - Hedge long equity positions

- [ ] **Trade directional breakouts** - Volatility expansion = trending moves

- [ ] **Widen stops 1.5-2x** - Price swings larger, avoid premature stops

Volatility Contraction Strategies (VIX Falling from High)

- [ ] **Fade VIX spikes** - Sell VXX/UVXY when VIX > 30 (mean reversion)

- [ ] **Buy equities at panic lows** - VIX > 40 = capitulation (contrarian long)

- [ ] **Sell puts (cash-secured)** - High IV = expensive premium to collect

- [ ] **Avoid chasing momentum** - Falling vol = slowing trends

- [ ] **Look for failed breakouts** - Low vol = breakouts more likely to fail

Options-Specific Volatility Plays

- [ ] **IV Rank check** - Trade when IV rank > 50 (sell) or < 25 (buy)

- [ ] **Earnings volatility crush** - Sell options pre-earnings, buy after crush

- [ ] **Calendar spreads** - Profit from near-term vol spike vs. far-term decay

- [ ] **Vega positioning** - Long vega (long options) in low vol, short vega (sell) in high vol

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📊 During Trade (Volatility Monitoring)

Real-Time Volatility Shifts

- [ ] **Monitor VIX intraday** - Spike > 5 points = risk-off shift (exit longs)

- [ ] **Watch Bollinger Bands in real-time** - Price touching bands = extreme, likely reversal

- [ ] **Check for ATR expansion** - If ATR spiking, widen stops or reduce size

- [ ] **Look for volatility divergence** - VIX rising but SPY flat = building pressure

Position Management by Volatility

- [ ] **Low vol:** Tighten stops, take profits at 1.5-2R (smaller moves)

- [ ] **Rising vol:** Widen stops, let runners go (larger moves possible)

- [ ] **Vol spike (VIX > 30):** Exit 50% of position, lock in gains

- [ ] **Vol crush:** If holding short premium, consider early close (collect 50-70% max profit)

Hedge Adjustments

- [ ] **If long stocks + VIX spikes:** Buy protective puts or sell covered calls

- [ ] **If short volatility + VIX spikes:** Close position immediately (unlimited risk)

- [ ] **Rebalance delta:** Adjust options delta as volatility changes underlying moves

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📊 Post-Trade Volatility Review

Volatility Prediction Accuracy

- [ ] **Did volatility regime play out as expected?** - Low vol breakout? High vol mean revert?

- [ ] **Was VIX spike/drop correctly timed?** - Entry at VIX extreme or mid-range?

- [ ] **How accurate was IV vs. HV analysis?** - Did options pricing reflect actual moves?

- [ ] **Did Bollinger squeeze predict breakout?** - Direction and magnitude correct?

Strategy Performance by Volatility Regime

- [ ] **Track win rate in low vol** - Mean reversion, credit spreads performing?

- [ ] **Track win rate in high vol** - Directional trades, long options profitable?

- [ ] **Measure avg R by vol regime** - High vol = higher R? Low vol = lower R?

- [ ] **Log volatility at entry** - Tag: Low Vol, Normal, Rising Vol, Extreme Spike

Lessons Learned

- [ ] **Which volatility indicator most reliable?** - VIX? ATR? Bollinger Bands?

- [ ] **Did I adapt strategy to regime?** - Or forced wrong strategy in wrong vol environment?

- [ ] **How well did I time vol spikes/crushes?** - Early, late, or on-time?

- [ ] **Next improvement** - Set VIX alerts at 20/30/40, practice reading term structure

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💡 Pro Tips

Volatility Trading Mastery

- **VIX mean reversion is real** - VIX > 30 almost always reverts to 15-20 (time it right)

- **Don't short VIX at low levels** - VIX can spike 100%+ overnight (career risk)

- **Use volatility to size positions** - Low vol = size up, high vol = size down

- **Bollinger squeeze is predictive** - Narrow bands = coiling spring (wait for breakout)

Common Mistakes to Avoid

- ❌ Shorting VIX in complacency (VIX < 12 can still spike to 40+)
- ❌ Buying options in low vol (expensive premium, realized moves too small)
- ❌ Selling premium in high vol without hedge (unlimited risk in crisis)
- ❌ Ignoring vol regime when entering trades (context determines strategy)

Volatility-Based Risk Management

- **Low vol (VIX < 15):** Risk 2% per trade, tight stops (0.5-1 ATR)
- **Normal vol (VIX 15-25):** Risk 1.5-2%, standard stops (1 ATR)
- **High vol (VIX 25-35):** Risk 1%, wide stops (1.5-2 ATR)
- **Extreme vol (VIX > 35):** Risk 0.5% or stay in cash, survive to trade another day

VIX Pattern Quick Reference

- **VIX < 12:** Complacency (buy puts as hedge, avoid shorting VIX)
- **VIX 15-20:** Normal environment (balanced strategies)
- **VIX 20-30:** Rising fear (reduce equity exposure, buy puts)
- **VIX 30-40:** Panic (contrarian long opportunities emerging)
- **VIX > 40:** Capitulation (historical buy signal for equities)

📚 Related Resources

- **Lesson 29:** Market Regime Recognition (volatility = key regime indicator)

- **Lesson 32:** Options Strategies (volatility determines options strategy selection)

- **Recommended Tools:** CBOE VIX Index, VXX/UVXY ETFs, IV Rank/Percentile (ThinkOrSwim, TastyTrade)

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Remember: Volatility is cyclical. Low volatility breeds complacency, which breeds high volatility, which breeds fear, which breeds low volatility. Trade the cycle, not the moment.