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Note

BURNEY COMPANY
INVESTMENT MANAGEMENT

VIX is High - Windfall Ahead!

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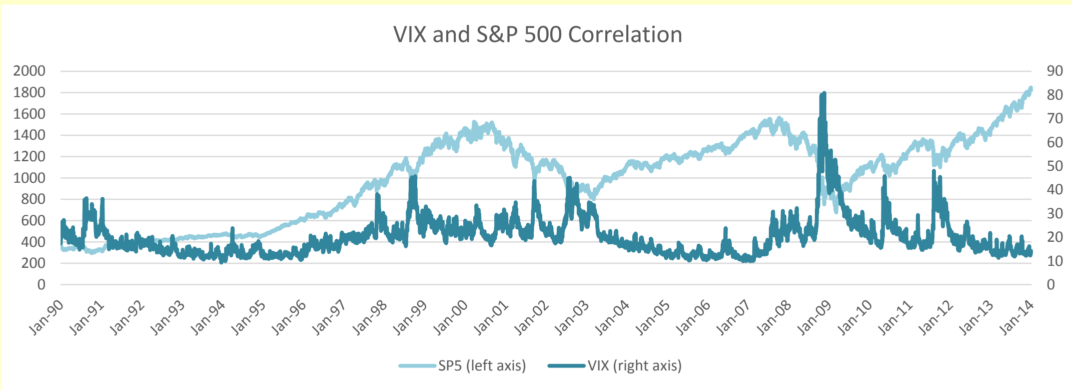
VIX is a measure of the expected volatility of the S&P 500 over the next 30 days, which means it is a forward looking measure. There is a strong inverse relationship between VIX and the stock market per the chart below. VIX increasing indicates that market sentiment is becoming more concerned and therefore stock prices decline. VIX readings above 30 indicate a panic state in the market. But elevated VIX readings can be interpreted in a different way, as expected equity returns ahead become significantly greater than average as VIX rises.



Expected equity returns ahead become significantly greater than average as VIX rises

We chose three meaningful thresholds to test: 25 to represent a concerned market, the aforementioned 30 and 40 to represent a major market panic. From July of 1995 to the end of 2013 the leading 12M return for the S&P 500 averaged 11%. Average next 12-month returns increased to 14% when VIX hit 25 and rose to 22.6% when VIX hit 30. At a VIX of 40, when the sky is falling and inexperienced investors are exiting the market in droves, average next 12-month returns were 32.9%.

	Average S&P 500 Return in the next 12 months	Standard Deviation (SD)	Min	Max	- 2SD	- 1SD	+ 1SD	+ 2SD
ALL*	11.0%	17.5%	(43.3%)	53.6%	(23.9%)	(6.4%)	28.5%	46.0%
VIX hit 25**	14.0%	20.3%	(43.3%)	53.6%	(26.5%)	(6.3%)	34.3%	54.6%
VIX hit 30**	22.6%	17.6%	(20.5%)	53.6%	(12.7%)	4.9%	40.2%	57.8%
VIX hit 40**	32.9%	12.6%	9.8%	53.6%	7.7%	20.3%	45.5%	58.1%

* 07/95 to 12/13 ** At month end

Market corrections and therefore VIX spikes are regularly occurring market events that test investor fortitude. While unpleasant to experience, they also create especially attractive future return opportunity.