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VIX Advances on Weaker Earnings Outlook for Technology Stocks 2008-10-14

By Jeff Kearns

Oct. 14 (Bloomberg) -- The benchmark index for U.S. stock options advanced after yesterday's record point drop as stocks fell on a worsening profit outlook for Microsoft Corp. A gauge of technology contracts also gained.

The VIX, as the Chicago Board Options Exchange Volatility Index is known, added 0.3 percent to 55.13. The index measures the cost of using options as insurance against declines in the Standard & Poor's 500 Index, which slipped 0.5 percent.

The volatility benchmark rose to new highs every day last week and closed Oct. 10 at a record 69.95 after the credit freeze sent the S&P 500 plunging to its worst week in 75 years. The VIX has averaged 25.42 this year.

"It's going to stay high," said **Joseph Saluzzi**, co-head of equity trading at **Themis Trading LLC** in Chatham, New Jersey.

"People are paying up for options because all of that fear out there. They need a hedging mechanism."

Microsoft retreated after analysts said demand for computers is slowing. Credit Suisse Group AG cut Microsoft's earnings forecasts over the next two years.

Technology volatility increased as that industry fell the most among 10 groups in the S&P 500, losing 3.9 percent. The CBOE's NDX Volatility Index, based on prices paid for options on the Nasdaq-100 Index, rose 4.2 percent to 62.77. The Nasdaq-100, which gets 63 percent of its value from technology companies, dropped 4.5 percent.

The VIX reached its low of the day during the first 10 minutes of trading as the Dow Jones Industrial Average jumped more than 400 points after Treasury Secretary Henry Paulson injected \$250 billion into the banking system. The volatility gauge rose in the afternoon, rising to 59.81 at 2:57 p.m. in New York.

Equity Risk

"There's still a lot of risk in the equity market, and uncertainty that stems from the credit side of the equation," said Pat Neal, head of equity derivatives strategy at Jefferies Group Inc. in New York. "A high level of uncertainty still surrounds all the actions that have been taken."

Paulson urged banks receiving the government's capital injections to use the funds to spur economic growth. With the equity purchases, Paulson is using more than a third of the \$700 billion in government support Congress gave him the authority to use on Oct. 3.

“Implied volatility is set to remain stubbornly high,” Andrew Wilkinson, a senior market analyst at Greenwich, Connecticut-based Interactive Brokers Group Inc., wrote in a report to clients today. “While the banking system might have finally found room to breathe, it's still extremely premature to predict that the measures taken will lead the economy out of a highly likely recessionary scenario.”

The VIX yesterday fell 21.39 points, or 21 percent, to 54.99 for the largest one-day point drop in its 18-year history after the S&P 500 surged 12 percent, the most since 1933.

Investors use options to guard against fluctuations in the price of securities they own, speculate on share-price moves or bet that volatility, or stock swings, will increase or decrease.