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Is market fear persistent? A long-memory analysis

Abstract

This paper investigates the degree of persistence of market fear in the VIX index over the sample period 2004–2016, as well as some sub-periods. The findings indicate that its properties change over time: in normal periods it exhibits anti-persistence, whilst during crisis period the level of persistence is increasing. These results can be informative about the nature of financial bubbles and anti-bubbles, and provide evidence on whether there exist market inefficiencies that could be exploited to make abnormal profits by designing appropriate trading strategies.

Keywords: Market fear, VIX, Persistence, Long memory, R/S analysis, Fractional integration