Written by **Bob Adelmann** on May 9, 2017

Stock Market's Complacency Index Highest in 24 Years

Wall Street's "complacency index" — a measure of confidence that stock prices will continue to rise — hit the highest level since 1993 on Monday. Alternatively called the VIX (for volatility index), it is often referred to as Wall Street's "investor fear gauge."

Translation: Investors presently appear to have no fear. The index compares investors betting, through their purchases of options, that the market will go up, to those betting to the contrary. When investor fear is high, the VIX will move above 30 or even higher. When fear declines, the VIX trades below 20. During the day on Monday the VIX touched 9.72, a level not seen in 24 years.

So complacent have investors become that the VIX has dropped by 45 percent just since April 13. By comparison, between October 8, 1998 and March 27, 2000, the VIX dropped by 45 percent. By October 5, 2007, it was down 64 percent. Those two dates (March 27, 2000 and October 5, 2007) remain painfully familiar to investors: they marked the S&P 500 Index's closing highs just before the market plunged.

The VIX, unfortunately, is no market timing tool. Stock prices can continue to move higher for weeks and months after hitting new "complacency" highs. On the other hand, warning signs are appearing elsewhere that could make investors increasingly nervous.

One sign is how much investors are willing to borrow to buy more stock. The relationship between margin debt and the S&P 500 Index is worth noting. Margin debt surged to astonishing levels in late 1999, peaking in March 2000, the same month that the S&P 500 Index hit its all-time high. By April the index was off nearly 50 percent.

Margin debt surged again in 2006, peaking in 2007, three months before the market topped out and began to roll over, declining by a similar amount.

In January margin debt, adjusted for inflation, hit an all-time high. In February it increased by nearly two percent, and closed out March higher still.

Another sign is auto sales. They have been declining for several months now, and April's numbers were shocking: Ford sales, compared to a year ago, were down 7.1 percent. Fiat Chrysler? Off 7.0 percent. Toyota? Down 4.4 percent. And Honda sank 7 percent.

Consequently unsold vehicles are piling up on dealers' lots. In April a year ago, there were 681,000 vehicles waiting for buyers. Last month that number was 935,000, up nearly 40 percent.

And car makers have stopped nearly all hiring. Two years ago they hired 40,300 people, but over the last 12 months they've hired only 2,400 new workers.

Another sign of weakness comes from the lenders supporting the auto industry. Since 2009 auto loans

have skyrocketed 56 percent to more than $1.2 trillion. More unnervingly is the number of sub-prime loans those lenders are making. Seven years ago high-risk poor-credit loans were just five percent of total car loans. Today they are a third. And those lenders are now setting aside massive reserves in anticipation that defaults on those poor credit risk loans will be increasing.

Credit card defaults are mounting as well, with Capital One's net charge offs jumping 28 percent year over year. And Synchrony Financial, the company that issues credit cards for Walmart and Amazon, just disclosed that it expects its charge offs in 2017 to rise to at least five percent this year. On that news investors unloaded its stock, pushing shares down by 16 percent, and down 27 percent for the year.

The "complacency index" could mean nothing more than higher highs are coming in stock prices. On the other hand, history has shown that it could also be a warning sign.

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