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# Understanding Market Volatility - Part 1

By admin

This year began with some market turbulence resulting in a correction in the S&P Index in late January of about 10%, and about 7% for the TSX during the same period. You would have thought the world was ending with all the hand-wringing and hysteria stirred up by media reports at the time.

More importantly, for a couple of years now, the media has been focusing on volatility as if it's something important that the investing public needs to be concerned about, which is akin to inventing a whole new way to look at managing money.

Since volatility has always been a part of investing in equity investments, most Financial Advisors scratched their heads about why it was suddenly such a big deal. Volatility (or uncertainty) is the price you pay to achieve growth in your money over longer periods of time (five years plus). This has always been the case and will likely continue to be the case well into the future. Many times Advisors will point to tools such as an Andex Chart to illustrate this point with the chart generally tilting upwards to the right, over time, as a sign of economic progress. It is not a smooth line, but has many squiggles on its upward march.

What did happen in January was **immaterial to investors who buy quality investments** whose profits rise over time; this is the definition of investing we use to measure investment performance and growth over time. Not what the market is doing day to day, especially when it is influenced by day traders, hedge funds and other market players.

The correction happened in an obscure area of the market where using options or derivative strategies by market players and traders, who often place highly leveraged bets using borrowed money, on the direction or possible outcome of certain instruments, was being used. And when they get it wrong as they did in late January, there is a rush to hurriedly unwind those often highly leveraged positions. The result was an **impact on the overall market for a short while**, but the market action did not in any way reflect the reality of a strong economy and companies who went on to report strong year-over-year earnings (profit) growth over the next couple of months.

The market action was a bit of a shock to many investors because it was in stark contrast to the benign state of the general markets in the US and Canada in 2017 when there were no daily market moves (up or down) of 3% or more. This was the inverse of other periods where 3% market moves on the S&P are rather routine and normal as reported by Dynamic Funds.

According to Dynamic, the **decade from 2000-2009 saw close to 100 days of 3% or more daily moves**. The period from 2010-2016 and 1990-1999 saw about 20 such moves. While the period of 2011 to early 2018 saw zero daily moves of 3% or more. So, **investors were spoiled in 2017** and lulled into a false sense of security when it comes to markets bouncing around.

We will look at what role volatility plays in your financial planning and strategies in the article next month. Please call us today to review your investments [1] to ensure they meet your needs.

**Leveraging carries its own risks and is not for everyone. Talk to your financial advisor to advice on properly managing those risks.*

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