INVESTOR NEWSLETTER

WHAT IS VOLATILITY?

Russell Investments

HELPING YOU MAKE INFORMED INVESTING DECISIONS

WHAT IS VOLATILITY?

In simple terms, volatility is rapid and unpredictable change. You may find that someone's mood is volatile, or that the weather is volatile. And you may occasionally hear that the markets are volatile.

While it sounds bad, volatility is a normal aspect of investing. Financial markets are always on the move. Markets can react to a variety of triggers: geopolitical events like the outbreak of war, for example, or disappointing economic data; bad (or good) news from an important corporation, a change in interest rates or tax law or industry regulations. And so on.

The amount of volatility seen in a market depends on many things: investors' risk appetite, uncertainty about the economy or geopolitical outlook, or a change in perception about the future of a company or sector (the impact of Artificial Intelligence, the creation of OPEC[1], and the outbreak of COVID are all notable examples of developments that changed the outlook of specific sectors or companies).

The bottom line is that it's the nature of financial markets to go up and down over time. That's why you often see images of roller coasters used to illustrate stories on market volatility.

HOW IS VOLATILITY DEFINED?

When it comes to weather, it's when a beautiful day suddenly turns dark and stormy. There's usually a substantial change in temperature.

Market volatility means different things to different types of investors. An experienced long-term investor may shrug off volatile markets, keeping in mind that equity indexes have historically risen over time. What may seem like a dramatic fall (or gain) in an index or stock price in the short term can often be just a small bump in a steady drive higher over the long term.

October is often regarded as a volatile month for the markets. There's some historical evidence for this: after all, the stock market crashes of 1929 and 1987 took place in October. And it's true that volatility in the month does tend to be higher than in other months – although that doesn't mean the markets will necessarily end lower. While the market may gyrate throughout October, it's also one of the months that traditionally ends positively. This just goes to show that volatility doesn't equal performance.

HOW DO YOU MEASURE VOLATILITY?

There are a number of ways to measure volatility. Some of the most common include:

The CBOE Volatility Index, widely known as the VIX, is also known as the Fear index.

Why? Well, there is a long-held maxim in investing that the markets are driven by greed and fear. Generally, when investors are greedy, the market goes up. And when they are fearful, the market goes down.

But that applies when investors are reacting as a group to a specific trigger – such as a spectacular earnings release from a major corporation or the outbreak of war. Investors do move in a herd, but not all the time. Both greed AND fear can be present in the markets at the same time, depending on the individual investor – and that's why markets can be volatile. What someone sees as a problem another sees as an opportunity.

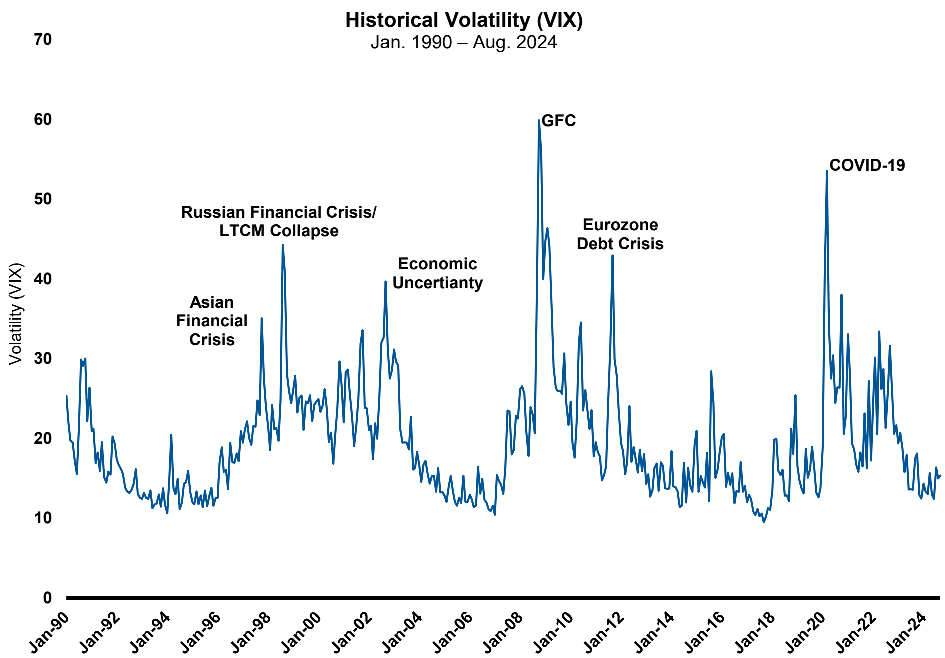
The VIX measures the equity market's expectations for the near-term price changes of the S&P 500 Index so it is considered a good barometer for expected volatility.

Standard deviation measures how far stock returns are expected to fluctuate from their average return, most of the time. The lower the standard deviation the less volatile the stock. For example, if a stock has an average return of 15% and standard deviation of 10% that means its return is expected to be within 5% and 25% over a year.

Beta measures how volatile an asset is compared to the broader market. For example, a stock that has a beta of 1.3 is 30% more volatile than the market itself, which has a beta of 1.0. A stock with a beta of .80 is 20% less volatile than the broader market.

[1] OPEC = Organization of the Petroleum Exporting Countries.

Measuring volatility



Average Monthly Volatility & Equity Returns
(Jan. 1990 – Dec. 2023)

	Volatility	U.S. Equity Return	# of Up Years	# of Down Years
Jan.	19.9%	0.4%	19	15
Feb.	20.6%	0.2%	20	14
Mar.	20.0%	1.3%	24	10
Apr.	18.7%	1.8%	26	8
May	18.2%	1.1%	25	9
Jun.	18.0%	0.0%	21	13
Jul.	18.3%	1.6%	21	13
Aug.	19.9%	-0.4%	20	14
Sept.	21.5%	-0.8%	17	17
Oct.	21.6%	1.6%	22	12
Nov.	19.9%	2.4%	26	8
Dec.	19.3%	1.6%	27	7

- Since 1990, October has been the most volatile month for investors.
- Despite volatility, it has delivered the 3rd best equity returns on average and was positive almost half the time

Source: Morningstar Direct & St. Louis Fred. As of 12/31/2023. U.S. Equity: S&P 500 Index, Volatility: VIX. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance are not a guarantee of future performance and are not indicative of any specific investment. GFC=Great Financial Crisis

WHAT SHOULD YOU DO WHEN MARKETS ARE VOLATILE?

When markets are volatile, it can be challenging to know the best course of action. Here are some tried and true strategies to consider:

1. **Stay Calm and Avoid Panic Selling:** Emotional reactions can lead to significant losses. It's important to stay calm and avoid making hasty decisions based on short-term market movements.
2. **Review Your Financial Goals:** Focus on your long-term financial goals rather than short-term market fluctuations. This can help you stay on track with your plan.
3. **Diversify Your Portfolio:** A well-diversified portfolio can help manage risk. By spreading your investments across different asset classes, such as stocks, bonds and alternatives, you can reduce the impact of volatility on your overall portfolio.
4. **Rebalance Your Investments:** Regularly review and rebalance your portfolio to ensure it aligns with your risk tolerance and investment goals.
5. **Consult a Financial Advisor:** If you're unsure about how to navigate market volatility, talking to a financial advisor can provide personalized guidance based on your specific situation.

Remember, market volatility is a normal part of investing, and having a solid plan in place through partnering with a financial advisor can help you weather the ups and downs more effectively.

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Please direct comments or questions to your financial professional.

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