First Quarter Report 2015

Perception, Reality and Market Volatility

One of the benefits of having devoted several decades to the financial sector is the perspective that comes with time. Market volatility that would have been unsettling to me when I first started now leads me to ask questions and to dig deeper before making any kind of pronouncement as to what, if anything, recent volatile markets might indicate.

It seems that the market's volatility this year has become a daily mantra of the economic news channels. The market is down move more than 1% for four days -- will this spell break? [i] The news seemed relativity bleak: once again we are seeing statements predicting the end of US investment.

Regular readers of these quarterly reports or my blog know that I consider short term markets to be indicative of absolutely nothing, and trying to outthink the gyrations of the market is a fool's errand. However, this pattern of daily volatility has now taken place over an extended period of time and this does warrant a closer look.

First, if you have concentrated only on headlines this year, the narrative suggests great concern. From January 1st to January 30, the S&P 500 saw a 6% decline and on the surface, that looks like a lot. Yet by February 28, the market was back to a 0% change and as of Friday April 24, the S&P was up 2.9% for the year. All in all, not a big deal either way[ii].

One emotional problem that many of us are facing is that as our accounts grow, a moderate percentage change seems larger than it did when we had less money. When our accounts held $50,000, a 6% fall is a loss of $ 3,000 dollars. But when accounts contain $500,000 or more, the same 6% change is ten times more dollars and feels considerably larger. That is an emotional response and not a rational response.

Due to changes in technology, short term (intraday/intraweek) volatility seems to have dramatically increased but in reality the overall volatility of the market for people who tend to hold onto investments over medium to long term time horizons has not been very different.

An experienced advisor understands the importance of separating the emotional feel of the event from the actual fiscal movement of the market. Our job is to keep you on the path to your goals. As long as we own quality companies, good bonds, and balance our overall investments, you should get where you need to be.

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[i] finance.yahoo.com/

[ii] finance.yahoo.com/