# Market Volatility Returns

By line: Doug Horn, CFP®

Based upon January 2018, it appeared this year was to be a clear continuation of 2017 as far as the investment markets go. And while there was no certainty of the continued rise in values, traders and market reporters are always looking for 'confirmation' of what or why the markets are responding the way they are, often revealing their own superstitions. Many of the axioms surrounding the markets confirm the lack of confidence which often exists among traders. *So goes the first five days of January, so goes the month. So goes January, so goes the year!* Believe it or not, according to the Stock Trader's almanac, the direction of January's market has predicted the move for the year over 70% of the time.

Then came February. Was the rapid decline in the first half of the month the long-awaited ten percent market correction, or something more ominous? Many of the reporters kept pointing to the fact it had been several years since there had been as much as a five percent pullback in the markets much less what is usually an annual ten percent correction. Pullbacks and corrections can rarely be predicted with accuracy and those who try often miss significant positive moves in the markets. When the correction is occurring, it is equally difficult to know when the markets have found the bottom and are ready to return to a positive trend. During the past two years there were several times when a correction was thought to be starting, only for the markets to return to their positive trends long before a decline of ten percent had occurred. Investors getting out during these false starts to a correction may have missed significant moves up.

For long-term investors, corrections and pullbacks should be opportunities to add to positions, not a time for emotional selling. Many traders recommend keeping a wish list ready for when a stock may trade outside its normal long-term trend range. That may also divert any anxiety which could be created by a rise in market volatility to watching for those dips in price of positions which are hoped to be purchased.

Another axiom worthy to follow is: *There is no opportunity for return without some risk*. There is no sure thing and if an opportunity is promoted as 'no risk', the risk is there, it just may not be obvious. Dig a little and once it is found, any investor can then determine whether the risk is worth taking or not. Just like the markets do not go up forever without a correction.

During the trading activity of February, it was often reported as the volatility had returned to the markets. In this case, 'risk' could be substituted for volatility. Whether volatility or risk is used, neither had left the markets. A more appropriate picture could be that volatility had gone to sleep for a while. The *VIX*, is a CBOE index which tracks market volatility. This index will not elevate necessarily when the market is heading predominately in one direction, whether up or down. It is a better measure of the likelihood of rapid changes in direction of the market based upon S&P 500 Index options. For most of 2016 and 2017, the *VIX* was trending lower with the occasional four or five-day uptick. This prolonged period of relative calmness in the markets allowed many investors to forget markets can move one or two percent up or down in a week or even a day. That is until this February. Volatility is normal and should be expected and with it, opportunities can be created and exist. Long-term investors should not be afraid of volatility, but expect it as part of investing.

About the author:
Founded Quality Financial Concepts in 1983 and serves investors locally and across the country.

Doug Horn, CFP
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