Market Volatility Returns

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Key Takeaways

- Rising rates causing volatility
- Volatility more common than not
- The argument for staying invested

With many portfolios flat or slightly down for the year, the 1st and 4th quarters have book-ended a volatile 2018 with 11% and 7% respective sell-offs in the broader market. What's causing the volatility and is it normal historically?

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What's Causing It?...For most investors, 2018 has felt like a "two-steps-forward, two-steps-back" type of year. Rising interest rates in the US have caused capital to flee foreign markets causing broad losses in foreign stock markets. As rates move up, investors in balanced portfolios with bond holdings (i.e., the majority of investors) have seen modest losses as bond values fall, thus offsetting muted stock gains. Combined with a US/China trade war and heightened geopolitical tensions around the world, investors have little to show for their efforts through the year. But is this normal....?

How Does 2018 Compare?... Volatility is normal in equity markets. 2017 as an example was historically *abnormal* with only a 3% pullback during the year *(this has only happened once in the last 38 years!)*. Historically, markets have seen a 10% intra-year correction about once per year on average. In fact, since 1980, the average intra-year drop was 13.8%. Despite this, the broader market posted positive returns in 29 of 38 years and an average return of 8.8% annually.

TAKEAWAYS???...Volatility is normal in most years. Despite this, it has historically paid off to remain invested and allow your funds to work for you. As the market adjusts to rising rates, markets are likely to be volatile along the way. History can be helpful in these situations to fully understand where our risks are - but mostly where our opportunities lie!

Disclosure