

Put Market Volatility in Perspective

Thomas Fuller, who was stolen from Africa to serve as a slave in this country, once observed that “every garden has its weeds.” While his assessment of life as a slave might be considered unbelievably gracious, a little generosity of spirit can go a long way toward taking the edge off events that are otherwise trying. This generosity of spirit can also help investors maintain their perspective.

With respect to the recent volatility in our financial markets, I am puzzled anew as to why some investors seem to have reacted with considerable angst while others have taken the latest round of bumps and jumps in stride. Emotional and genetic make-up aside, which attitude is more appropriate? Are those who respond to market turbulence with white knuckles and rash decisions guilty of over-reacting, or are those who absorb market tumult with nary a flinch guilty of some mental deficiency or a lack of caring?

A more germane issue might be whether or not the recent market turbulence is still within the realm of normalcy. Pronounced market movements are a little like colds in that they arrive with some degree of regularity. Unlike colds, however, the symptoms that precipitate such movements tend to vary dramatically – and that variation can be unnerving.

Objective analysis to the rescue! In a recently released study designed to determine what level of market volatility might be considered normal, The Vanguard Group took a look at the daily returns of the Standard & Poors 500 (a proxy for the general stock market) from 1970 through August 1st of 2007. Days for which this index moved up or down at least 1% were considered to be volatile. So, what percentage of the time was the U.S. stock market considered to be volatile? 23%! Over the past 36 years, the stock market was bucking investors around almost a quarter of the time. Here’s a recap of a few recent years:

<u>Year</u>	<u>% of Volatile Trading Days</u>
2002	50%
2003	33%
2004	16%
2005	12%

2006 12%

According to this same study, the number of volatile trading days observed in June and July of 2007 stood at 31%. So while recent market gyrations have been somewhat more severe recently, their impact has been exaggerated by the relative calm of 2004 – 2006. The most important difference between the current “cold” and previous colds is simply that we haven’t recovered from the current one yet.

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