

A SIMPLE GUIDE TO VOLATILITY

For promotional purposes

Investors have much to think about when choosing and understanding investments; in particular, market volatility and the impact it can have on your investment. Extreme market volatility during the 2007-08 financial crisis demonstrated how markets can swing wildly. Understanding volatility is therefore vital to the overall process of choosing the right investments, whether you decide to make your own investment decision or to consult a financial adviser. If you are unsure, we recommend consulting a financial adviser if you can.

What is volatility?

Volatility is how sharply and how frequently a fund or share price moves up or down over a certain period of time (see example below).

What causes volatility?

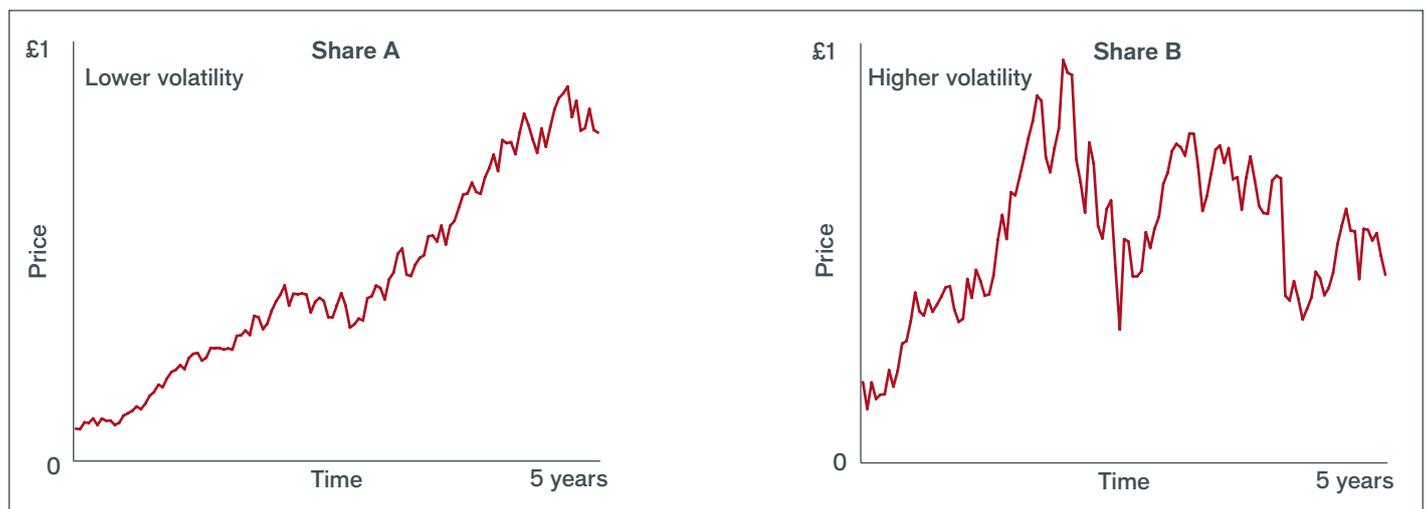
Volatility can be triggered by any number of factors. The UK stock market, for example, can fluctuate because of various factors both domestically and overseas; economic data from around the world, as well as key political developments can trigger significant market movements. Periods of losses/downturns can be followed by upswings, also known as rallies, and vice versa. But this is the very nature of the stock market.

Can you measure it?

The most common measure of volatility is standard deviation. This measures how much the value of an investment moves away or deviates from its average (mean) value over a set period of time, ie, how much it rises and falls. The higher the volatility, the greater the standard deviation.

The examples below show shares with lower and higher volatility. Share A has lower standard deviation (volatility) compared to share B which has higher standard deviation.

Forecast volatility attempts to use standard deviation to forecast future variation in returns. The higher a forecast volatility figure, the more an investment could move both up and down over time.



Source: Janus Henderson, for illustrative purposes only

What does it mean for my investments?

Generally investors are happier with lower volatility even if this could mean making less money over time. Investors worry most about volatility when markets are falling. When this happens, remember that any loss or gain is only realised when you sell your holdings.

Investing for the long term means short-term volatility is not necessarily a reason to panic and make drastic changes.

It can potentially work to your advantage if you invest a monthly amount. When prices go up, the value of your investment rises and when they go down your payment buys more. This is often referred to as pound cost averaging. However, this method and any other method does not guarantee returns.

How can I best deal with volatility?

Spreading risk through diversification is often said to be a golden rule of investment. Diversification across a range of markets and asset classes should enable your savings to go to work in different markets and crucially, reduce exposure to one individual area, as one asset class may go up while another goes down.

Strategies of long-term investing and regular saving should help smooth out any bumpy rides. Matching your attitude to risk with your investments is crucial to getting the right portfolio for your needs.

Please be advised that the value of investments can fall as well as rise and you may not get back the amount originally invested. The information in this guide does not qualify as an investment recommendation.

Past performance is not a guide to future performance.

Top tips

- ✓ Volatility is how sharply and how frequently an investment moves up or down over a certain period
- ✓ Periods of losses can be followed by gains and vice versa
- ✓ Strategies of long-term investing, diversification and regular saving can potentially help smooth out any bumpy rides
- ✓ Any loss or gain is only realised when you sell your investments
- ✓ By speaking to a financial adviser, you can discuss your appetite to risk and investment options and find a solution that's right for you

For information relating to volatility please see our simple guide to risk profiling.

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Janus Henderson
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