A SIMPLE GUIDE TO VOLATILITY

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 and the onset of the coronavirus pandemic in 2020 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 decisions or to consult a financial adviser. If you are unsure, we recommend consulting a financial adviser if you can.

What is volatility?

Volatility is the rate and extent at which the price of a portfolio, security or index moves up or down over a certain period of time (see example below).

What causes volatility?

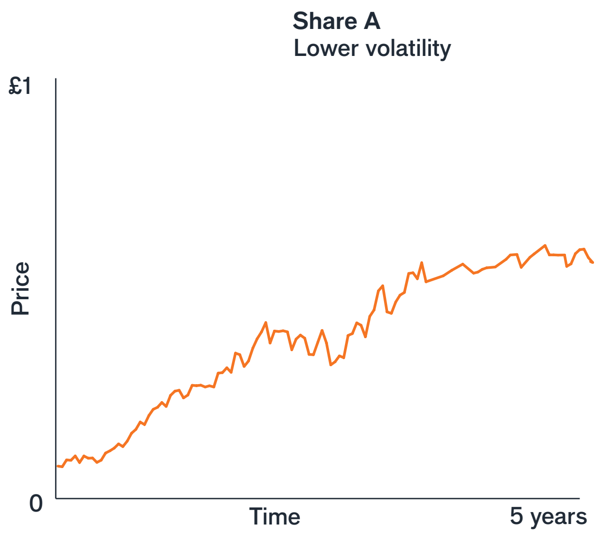
Volatility can be triggered by any number of factors. The UK stock market, for example, can fluctuate in response to both domestic and overseas factors affecting underlying companies, economic data and investor sentiment. Political and policy developments can also cause significant market movements. Periods of losses/downturns can be followed by upswings, also known as rallies, and vice versa. This is the nature of the stock market.

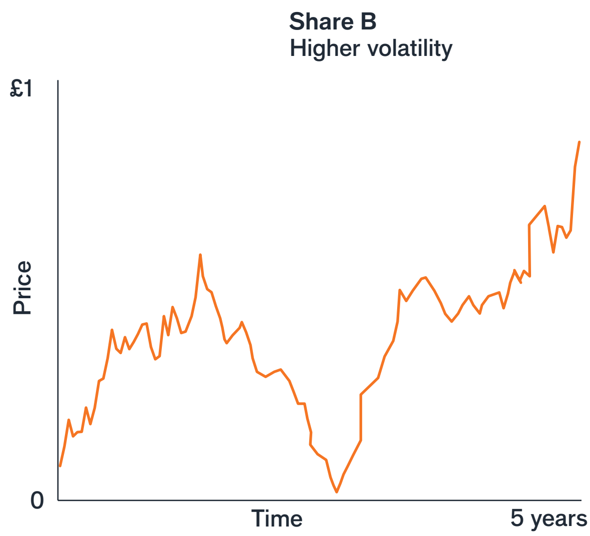
Can you measure it?

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 price movement in share A is relatively stable; the share price makes small gains or losses. Conversely, share B displays volatile price movement where large decreases in the share price are followed by large upswings in the price.

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, some investors are happier with lower volatility even if this could mean making less money over time. For example, cash in a bank account has low volatility but returns are typically less than shares which carry more volatility (risk) but can potentially offer more reward over the long term. 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 regular 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 money 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 does not predict future returns.

Top Tips

- ✓ Volatility is the rate and extent at which the price of a portfolio, security or index moves up or down over a certain period of time.
- ✓ 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 is right for you.

FOR MORE INFORMATION, PLEASE VISIT **JANUSHENDERSON.COM**

Janus Henderson INVESTORS

Important information

The views presented are as of the date published. They are for information purposes only and should not be used or construed as investment, legal or tax advice or as an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell or hold any security, investment strategy or market sector. Nothing in this material shall be deemed to be a direct or indirect provision of investment management services specific to any client requirements. Opinions and examples are meant as an illustration of broader themes, are not an indication of trading intent, are subject to change and may not reflect the views of others in the organization. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. No forecasts can be guaranteed and there is no guarantee that the information supplied is complete or timely, nor are there any warranties with regard to the results obtained from its use. Janus Henderson Investors is the source of data unless otherwise indicated, and has reasonable belief to rely on information and data sourced from third parties. **Past performance does not predict future returns. Investing involves risk, including the possible loss of principal and fluctuation of value.**

Not all products or services are available in all jurisdictions. This material or information contained in it may be restricted by law, may not be reproduced or referred to without express written permission or used in any jurisdiction or circumstance in which its use would be unlawful. Janus Henderson is not responsible for any unlawful distribution of this material to any third parties, in whole or in part. The contents of this material have not been approved or endorsed by any regulatory agency.

Janus Henderson Investors is the name under which investment products and services are provided by the entities identified in the following jurisdictions: (a) Europe by Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Equity Partners Limited (reg. no.2606646), (each registered in England and Wales at 201 Bishopsgate, London EC2M 3AE and regulated by the Financial Conduct Authority) and Henderson Management S.A. (reg no. B22848 at 2 Rue de Bitbourg, L-1273, Luxembourg and regulated by the Commission de Surveillance du Secteur Financier).