Stop Saying Volatility Is a Bad Thing

Excerpt below:

Hardly a day went by in 2017 without some pundit bemoaning the lack of volatility in financial markets. They worried about complacency, implying that the Goldilocks-like environment that enveloped markets was a recipe for disaster. With volatility on the rise, you would think the handwringing would diminish. It hasn't. Now, the pundits are worried the big swings in asset prices of the last few months portend doom.

Somewhere along the line, the word "volatility" became code for a declining stock market. The reality is that rising volatility as measured by the CBOE Volatility Index, or VIX, "is only a reflection of volatile movements in the market – it is not a predictor of future returns," David Kotok, the head of Cumberland Advisors, sent in a Friday note written by Leo Chen Ph.D. to the wealth management firm's clients. Although the VIX has risen from a record low of below 10 in November to above 30 in February, that doesn't necessarily portend trouble. Chen points out that whenever the VIX has doubled in a period of three months, the S&P 500 has gained an average of 6.31 percent in the following six months. The S&P 500's average six-month return is 4.37 percent since 1990.

The reasons for last year's low volatility are pretty apparent. First, there's little room for surprise when the Federal Reserve is telling you what it's going to do, *when it's going to do it and by how much. Second, the Trump administration was focused on such market-friendly moves as reducing regulations and cutting corporate taxes.*

Read the full article on Bloomberg.