

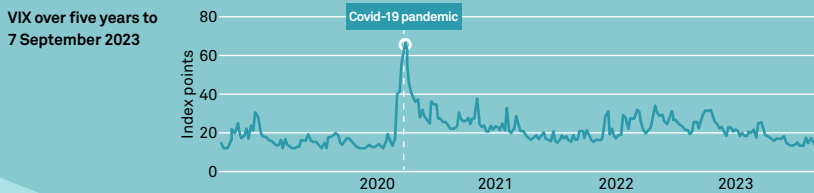
# VOLATILITY



## WHAT is volatility?

Market volatility is sharp (often unpredictable) fluctuations in prices. In normal market conditions the price of individual companies (shares or equities) rises and falls for various reasons. We describe the market as volatile when these sudden movements affect multiple companies.

There are many ways to measure volatility. There is even an index, the VIX, that tracks it (using the US S&P 500 index as a proxy) that gives people a historic reference for comparison.



(A representative example) Source: Google Finance

## WHY does volatility happen

For many reasons. It is a repercussion, a representation of how people are feeling. Negative events can undermine investors' confidence, leading to sharp fluctuations. Causes can include:

### Geopolitics

War or even the threat of conflict can create market nervousness. An unexpected election outcome, or surprise government intervention can also trigger volatility.

### Global events

The Covid-19 pandemic is a good example of how a global event can spark market volatility. But triggers can be smaller than this, like a surge in oil prices.

### Company performance

Sometimes volatility is borne from a single company involved in a high profile scandal or default. This can have a "contagion" effect, causing similar stocks to get caught up.



## WHEN can volatility happen?

At a moment's notice. The very nature of volatility means that it can't be definitively pinpointed or predicted.



## WHERE can volatility be found?

Any market or asset can experience volatility. Some assets are described as volatile because they may have an inherent tendency for uncertainty. The less predictable an asset or market's performance is, the more it earns the characterisation of 'volatile'.



## WHO might benefit from volatility?

Volatility is not always a bad thing and can present market opportunities when prices temporarily go down.

Think of it as a flash sale, managers looking for investment opportunities can find bargains in volatile markets. Such stocks may return to higher value when markets calm.

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