Myles Zyblock - Market Commentary

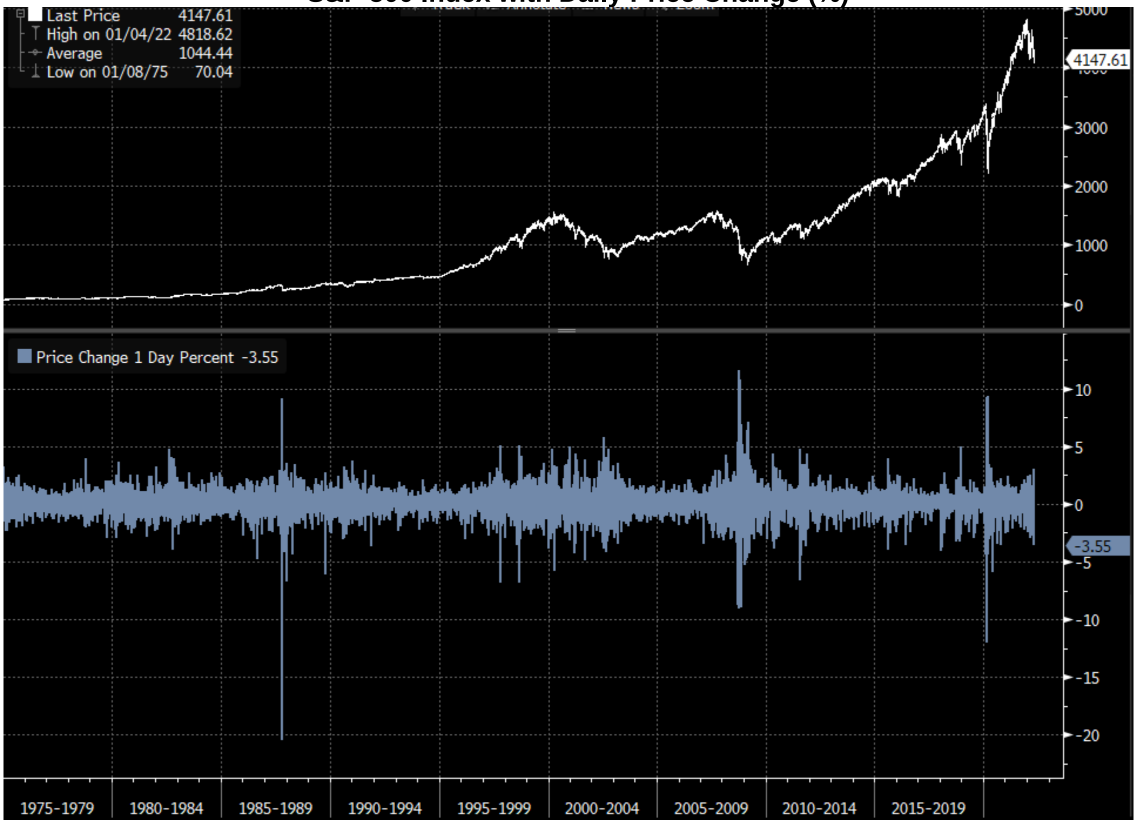
May 5, 2022

Market Volatility: Signal and noise

The investor's chief problem – and even his worst enemy – is likely to be himself

Benjamin Graham, The Intelligent Investor

S&P 500 Index with Daily Price Change (%)



(Source: Bloomberg)

Yesterday, the financial markets appeared to express great relief after the Federal Reserve signalled the need not to expect a greater than 50 basis point hike to the funds rate over at least the next couple of monetary policy meetings. I was surprised by that sharp 3% jump higher in the S&P 500 on the news. Those gains were erased by today's 3.6% Index decline.

There are many different types of market participants, each with their own style and investment time horizon. The interaction between these participants, from high frequency traders to long-term investors, plays an important role in ensuring the overall health of financial markets. But, know which one of those you are. Personally, I feel that there is an incredible amount of noise embedded in the lower panel of today's chart which is showing a history of daily market returns. I also know that this noise dissipates as investment time horizons are lengthened. Investors can more easily see how those "noisy" daily returns link together through time by the information presented in the upper panel.

It is often difficult to control one's emotions when stock prices are jumping all over the place. This is why it is so important to have a gameplan in place. The plan will not entirely shield you from market volatility, but it might prevent you from becoming your own worst enemy.

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