10 Things You Should Know About Stock Market Volatility

IT WOULD BE NICE IF YOUR INVESTING JOURNEY WAS ALWAYS A STEADY UPHILL MARCH. In reality, it's more of a sometimes run/sometimes crawl with plenty of downhill moments along the way. In spite of the obstacles, over time, the path typically trends upward. The bumps of stock market volatility are an inescapable part of the investment experience, but with some context, they don't have to be so scary.

1. **Put points in perspective.** Banners across the TV news stations playing in your office, at the dentist, and in your house sometimes bear news of the Dow Jones Industrial Average (Dow)[1] dropping, inciting market fear. But it's all relative. A 1% swing at today's levels is around 330 points. When the Dow was at 10,000 points, a 1% swing was only 100 points. Volatility is a matter of perspective.

2. **There's an index for that.** The Cboe VIX Index (VIX),[2] or "fear index," is a gauge of investor sentiment. The VIX tends to have an inverse correlation to the S&P 500 Index.[3] This means that when the market is down, fear is up, and vice versa. A VIX score of 20 or less generally indicates investor contentment. A score of 30 or more suggests anxiety surrounding market-moving events.

3. **The only thing to fear is extreme fear itself.** A VIX score of 40 or higher indicates extreme fear among investors. This doesn't happen often. In fact, since 2010, the VIX has only spiked so high on 51 trading days.[4]

4. **Don't let bad days blind you to good days.** Since the VIX's inception in 1990, 61% of the days of extreme fear occurred in 2008 and 2009, during the Global Financial Crisis. Most years—22 since 1990, to be exact—didn't see a single day when the VIX hit 40.[4] Historically, high-fear days and years have been the exception, not the rule.

5. **Volatility in 2020 was much higher than usual.** As a result of COVID-19, volatility in the S&P 500 Index in 2020 was more than double the 10-year historical average from 2010-2019. Remarkably, 42% of trading days in 2020 had swings of + or - 1%—the highest level since 2009.[5]

6. **Patience is a virtue?** While investing in the stock market has its ups and downs, the longer an investor stays invested, the less significant those bumps in the road appear. As represented by the S&P 500 Index, stocks have tended to be up more often for investors who held on for longer (**see charts on page 2**).

7. **No one said it would be easy.** The S&P 500 Index has had an average annual return of 12% from 1979 through 2020, so many investors may have expected a similar return in any individual year. However, the Index returned between 9% and 12% only three times during this time period.[5] Volatility is much easier to tolerate when you expect it.

8. **Want to minimize volatility?** If market volatility makes you uncomfortable, there are specific investments you can use that seek to minimize volatility. You can work with a financial professional to help reduce volatility in your portfolio without abandoning growth-oriented investments.

9. **Or embrace volatility?** If you're able to put aside the day-to-day discomfort of market volatility, it could provide the opportunity for higher returns. While trying to time the market is ill-advised, investing during down markets is exactly in line with the old financial adage "buy low, sell high."

10. **Remember, the glass has been more than half full, historically.** If you're swept up in volatility, remember that markets have been positive more often than not. In fact, stocks have turned in a positive return 64 out of the last 84 calendar years, which means they've been on the rise 76% of the time **(see chart on page 2).**[6]

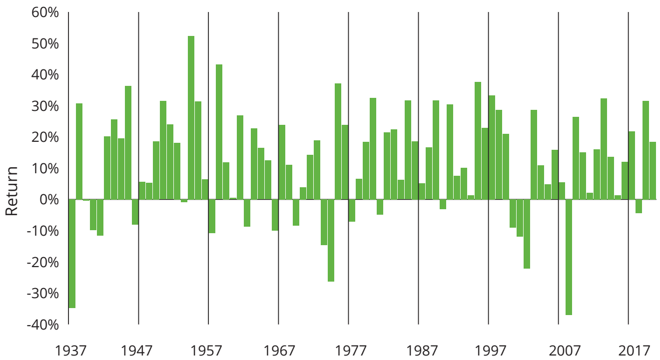
Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment.
[1] Dow Jones Industrial Average is an unmanaged, price-weighted index of 30 of the largest, most widely held stocks traded on the NYSE.
[2] Cboe Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices. | [3] The S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. | [4] Data Sources: FactSet and Hartford Funds, 2/21 | [5] Data Sources: Morningstar and Hartford Funds, 2/21 | [6] Data Sources: Ned Davis Research and Hartford Funds, 2/21

Long-Term Investors Have Historically Seen Less Volatility

Each of the charts below shows the investment results for the S&P 500 Index for different lengths of time. The longer an investor holds stocks, the greater the potential for an overall positive return.

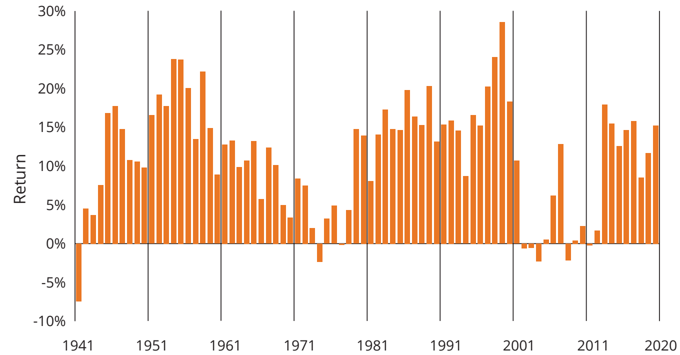
One-year holding periods (Jan. 1, 1937–Dec. 31, 2020)

Stocks were up 76% of the time—64 up periods, 20 down



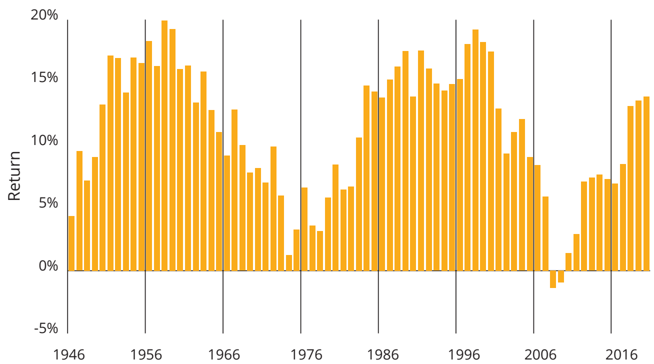
Five-year holding periods (Jan. 1, 1937–Dec. 31, 2020)

Stocks were up 90% of the time—72 up periods, 8 down



Ten-year holding periods (Jan. 1, 1937–Dec. 31, 2020)

Stocks were up 97% of the time—73 up periods, 2 down



Data Sources: Morningstar and Hartford Funds, 2/21. Equities are represented by the S&P 500 Index. The Index is unmanaged and unavailable for direct investment. For illustrative purposes only. **Past performance does not guarantee future results.**

Although volatility is an inevitable part of your investing journey, a financial professional can help you keep volatility in perspective and your goals within reach.

Investing involves risk, including the possible loss of principal.
• Diversification does not ensure a profit or protect against a loss.

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