

Perpetual knowledge bank series: **volatility**

8 August 2022



Volatility in the context of financial markets refers to rapid stock price fluctuations and swings. But while investors often only associate volatility with the downside volatility that comes with spectacular market crashes, the more likely outcome is that the market – and individual listed stocks – will experience both good days and bad. Historically the market has produced some of its highest returns in the wake of memorable downturns with both the 2008 financial crisis and

the recovery from the Covid-19 pandemic in 2020 being recent examples. While neither of these events were much fun for investors watching their portfolios diminish at the time, those who stayed in the market or who took the [opportunity to realign](#) their portfolios were often rewarded down the track.

A good example of this would be the ASX 200's performance in 2020 and 2021. In 2020, ASX 200 shares fell by 32.5% between mid-February and mid-March due to the onset of Covid-19, only to rebound 36.7% by the end of the year. After such a high volatility year for ASX 200 shares, 2021 was relatively benign, appreciating by 13.02% over the calendar year with no significant market corrections or crashes. Periods of increased market volatility should therefore be seen as inevitable, and investors should accept volatility as a normal and necessary part of investing. However, rapid market falls can make even seasoned investors nervous especially when the sell-off is being driven by big macroeconomic themes like wars or pandemics. Another way to think about volatility is that it creates opportunities for savvy investors who invest for the long haul.

As a general rule, shares that fall into the growth shares category tend to display higher levels of volatility than value shares or ASX blue chips. This typically means outperforming the index during bull markets and underperformance during bear markets. By contrast, companies that tend to have resilient and predictable cash flows, like utilities or infrastructure providers, tend to be low volatility shares. These might underperform during bull markets but might also provide higher levels of capital protection during bear markets. Investors handle volatility in different way and engaging with a financial adviser can assist in determining your investment goals, risk profile and appetite for volatility compared to the broader market.

This analysis has been prepared by [Perpetual Investment Management Limited \(PIML\)](#) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML and PSL do not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1 800 022 033 or visiting our website <http://www.perpetual.com.au> .

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.

