Mitch on the Markets

What Should You Do When Volatility Surges?

By Mitch Zacks
Portfolio Manager

The lack of sustained and pronounced volatility in this bull market has been curious, to say the least. During the first 100 trading days of the new year, the S&P 500 averaged just 0.56% in its range from a trading day's high point to its low point. That marks the least volatile start to a year since 1970 (when records started for intraday trading).

This market 'lull' is hardly the stuff of a wild or nerve-racking market – in fact, it is pretty much just the opposite. But, just as periods of high volatility and wild swings are undesirable, the same can often be said of very quiet and subdued markets. It gives the eerie feeling that a shock is building, like the unsettling calm before a storm.

By early May, volatility in the S&P 500 as measured by the VIX had crossed below 10, which also meant reaching its lowest level in 10 years. The troubling stat follows: the VIX has closed below 10 on just nine occasions since 1990, but each of those times was followed by a declining 12-month stretch for the S&P 500. Is that bad news for the next twelve months?

Planning for Any Outcome

I've made the argument many times in this space that I do not think the next twelve months are due for a *sustained* decline (though I would argue that a correction is well within the realm of possibility). Volatility also tends to work in patches – periods of pronounced volatility followed by periods of low volatility, and on goes the cycle.

That would argue for a potential period of higher volatility looking ahead, but that does not necessarily have to be a bad thing. Because remember, volatility works both ways. Many investors often associate volatility with declines, but stocks can also snap to the upside, making violent and rapid advances. In fact, that happens more often than the declines do.

Either way, investors have the ability to control for volatility – and we all should take steps to do so. The best way to do this is through perhaps the most time-tested formula in the investing world: *diversification.* Assembling a portfolio of different sectors, asset classes, styles, market caps, and so on means assembling a portfolio with non-correlated assets. When some of those assets zig, others may zag, and that can help you control volatile swings while limiting downside and participating in upside.

In what I expect is the latter stages of this bull market, it is my view that having a diversified portfolio now is paramount.

Bottom Line for Investors

Building a diversified portfolio from scratch can be a difficult and sometimes daunting task. It takes a lot of research and a lot of ongoing maintenance as market conditions change. At Zacks Investment Management, we have created various strategies that, pieced together, are designed to help investors build diversified portfolios – all under one roof. We have several strategies ranked by Morningstar as being in the top 7% of their respective asset classes as of March 31st, which places us in the top rankings amongst thousands of equity managers. We're proud of this work and we very much expect these results to continue.

-Mitch

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.