Market Volatility Terms to Know

Every industry has its special terms whose meanings aren't always clear to the casual observer – investments may surpass them all.

Its stream of strange terms can be hard to decipher, particularly during tough markets when industry jargon and unfamiliar language can obfuscate pressing matters.

Here's a miniature codebook to help you interpret common financial services terminology.

Volatility

At its simplest level, volatility occurs when the market swings a lot in one direction or the other. The greater the swing, the greater the volatility. In 2022, through the end of May, the S&P 500 moved more than 1% in either direction 52 times, which is well above average.

Volatility index

The Chicago Board Options Exchange's Volatility Index, or VIX, measures expected volatility in U.S. stocks. It's been called a fear gauge. Essentially, it's an estimate of standard deviation – a statistical measure of volatility – based on option prices. When investors fear negative outcomes in the market common, options prices often increase, causing the VIX to rise.

Inflation

Inflation refers to increases in the level of prices in an economy. Most central banks agree that 2% is a really good level. Anything above 4% would be considered high. In 2022, U.S. inflation climbed into the 8% range, the highest rate in decades. For consumers, high inflation means that their money isn't worth as much in terms of what it can buy as before. Not surprisingly, high inflation can trigger market volatility due to the uncertainty it raises.

Buying the dip

Some investors buy stocks when they dip down, believing they will rebound in a big way. When this is practiced with a small percentage of the portfolio, it can be a fruitful strategy to take advantage of volatility. It's damaging, however, if investors keep a large sum of money out of the market while waiting for a dip and the market keeps rallying higher. By the time a dip finally occurs, the market may be well above its level when the decision to set aside the cash to wait for an opportunity.

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Interest rate increases

All eyes have been on the Federal Reserve this year as it tries to rein in inflation by raising the Federal Funds Rate, which sets how much banks charge each other for short-term lending. It influences a lot of other interest rates in the economy, primarily short-term ones like credit card rates and the rates that savings accounts pay out. When the Federal Funds Rate is low, borrowing is cheap, and that creates extra economic activity. When it inches up, markets can get turbulent.

Bear market

When the stock market closes 20% below its previous all-time high, it's a bear market.

Market correction

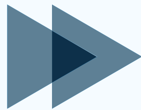
A market correction occurs when there's a 10% decline from the previous all-time high.

Beta

Beta is a statistical measure for how much a movement in one thing affects something else. The core issue: Beta measures how much a security or a portfolio is expected to move in relation to the market. If 10% moves in the S&P 500 and generally causes your portfolio to move 7%, its beta is close to 0.7.

Panic selling

Sometimes, when investors fear the market is headed toward a severe bear market, they will begin to sell risky and not-so-risky assets without any careful thought. It's an emotional reaction seen over time in market short-term crashes like 1987 and normal corrections where investors become fearful. No one describes it as panic selling when they sell – but that's what it is.



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If you're not working with an advisor, now is a great time to get support. Let us help you **connect with a professional** who will tailor your plan to your existing needs and long-term goals.

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