Putting Volatility In Perspective

Now that typical daily market moves are in the hundreds of points on the Dow Jones Average, it will be helpful (and perhaps calming) to learn how today's gyrations compare with those of the past. As we review extensive historical data, we will learn that what now seems unusual is really a return to what had previously been viewed as normal.

Since 1950, a span of nearly seven decades, there has been an intrayear dip of at least 10% in almost every year as well as five intrayear dips of 5% or more during the same period. Given that backdrop, the fact that for a full 18 months prior to this past February there were no pullbacks of as much as 5% is quite striking. If there ever was a market anomaly, that was it.

So here we are in the early going of 2018 and the market pendulum is swinging back and forth with great gusto. To date, we have already had one pullback of 10% and four pullbacks of 5%, so we're well on the way back to the typical pace of historical volatility.

As it always does, vacillating investor psychology rules the day. Between escalating prattle about tariffs and ongoing geopolitical concerns, there's more than enough fodder to spin Wall Street's head. Still, the economic underpinnings are solid and likely to remain so well into 2019. What's more, courtesy of rising corporate profits and trimmed stock prices, overall valuations have slipped into a more reasonable range.

With that said, the best advice would be to maintain one's focus on the horizon rather than on the here and now. Efforts made to evaluate prospects for the coming months or even weeks will be doomed to failure. Far better to learn and appreciate the reality that fundamentals are what drive markets over the longer term.