What's the problem with volatility?

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COLUMBIA THREADNEEDLE INVESTMENTS

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All financial markets have some level of volatility. It's key to determine what level of volatility is normal.

It's just as dangerous, perhaps, to have too little volatility than it is to have too much, in that too little lulls people into a false sense of security. Which isn't normal because there's so many things going on in the world, with individual companies, politics, that you would expect some level of uncertainty, which is what volatility is trying to represent. Now, too much probably means you have huge amounts of uncertainty, the risk of war, the risk of a huge recession. So, there's a balance in between.

But you want some level of volatility to make sure that the market is telling you that it understands the risk that's out there,

The problem for volatility for people is it represents uncertainty, and people, we know, behaviorally do not do well with uncertainty. We do know when there is volatility, particularly on the downside, that people make some very bad decisions.

They spent a long time, perhaps, with their financial advisor building up a plan, but then, they panic and they run away. But most of what we get today, it's just noise. It's not a material change in economic direction, therefore you shouldn't really be reacting to it.

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