Understanding volatility

"Volatility" is an investment term for when the stock market experiences periods of unpredictable, and sometimes sharp, rises and falls.

People often think about volatility only in connection with dramatic drops in prices, but it can also refer to sudden rises as well. So it's really just a way of describing a market that's going through some turbulence.

Volatility is caused by a wide range of economic and political factors, from news affecting a particular industry sector to government policy changes and political tensions or upheavals. Anything that creates uncertainty and causes some investors to sell and others to buy can lead to volatility.

In a volatile market, prices aren't always an accurate reflection of real worth. A sudden swing up or down can make an investment suddenly seem worth more or less than it really is over the long term.

Volatility is normal.

Volatility is inevitable in a healthy market, and every long-term investor will experience it from time to time.

Changes in the prices of stocks are natural in a functioning market. The value of individual companies can go up and down over time as their particular industries become more or less important, and as policies and governments change every few years.

So it's important to be comfortable with the idea of seeing the market change.

Being prepared for volatility at the start of an investment journey means you are less likely to be surprised by short-term events, and more likely to stay focused on your long-term goals.

An advisor can also be an excellent sounding board and a voice of reason who could potentially help you make decisions based on what is best for your long-term plan.

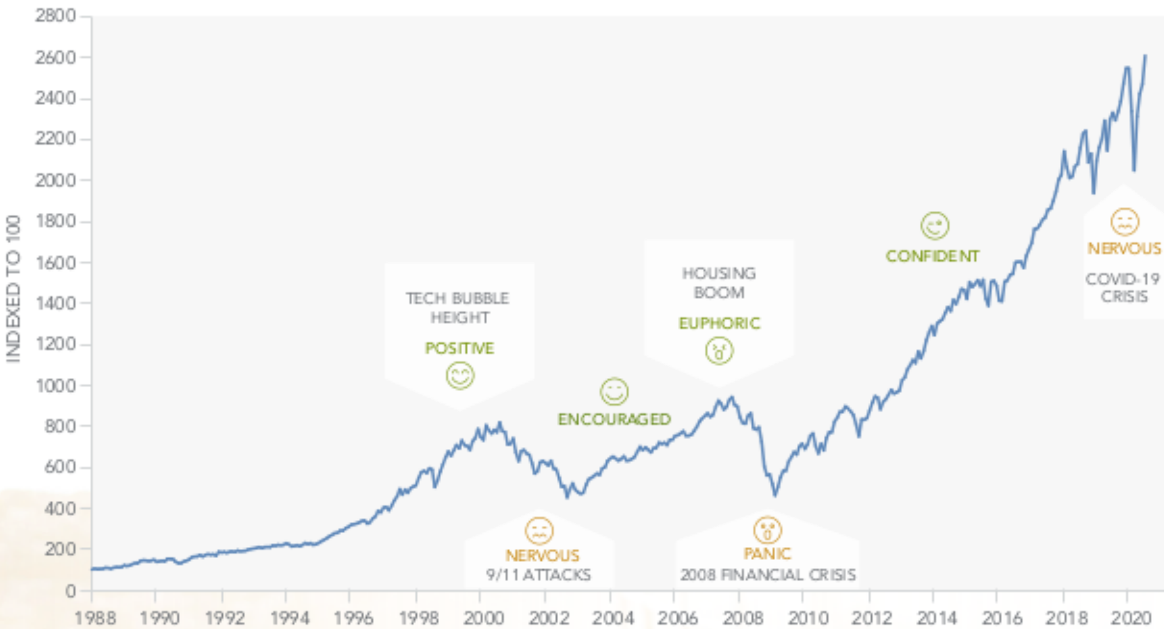
Keep a cool head.

When you see a sudden change in the stock market, you might feel tempted to rush into buying or selling stocks, either to ride a wave of growth or minimize your losses.

But instinctive reactions don't always make for sound financial decisions. By acting too quickly, you're more likely to make costly mistakes, like selling low or buying high.

It's important to keep a cool head when the market is volatile, and avoid being distracted by your emotions. Consider working with a financial advisor to help you create and follow a disciplined investment process to avoid these emotional decisions.

HOW EMOTIONS CAN LEAD YOU ASTRAY



Please note that this information is for illustration purposes only and is a representation of what's happened in a developed market.

Source: Fidelity Investments Canada ULC. As at July 31, 2020. Data shown for S&P 500 Index. Returns are in U.S. dollars. The S&P 500 or Standard & Poor's 500 Index is a market capitalization-weighted index of the 500 largest U.S. publicly traded companies.

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