What's wrong with low volatility?

Jeff Knight, Global Head of Investment Solutions

COLUMBIA THREADNEEDLE INVESTMENTS

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What I think investors need to be careful of, particularly in times of low volatility, is it's easy to feel under-gratified by performance.

No matter how you look at it, volatility of financial markets today is very, very low. It's low in realized volatility, if we just observe the daily fluctuations of prices, and it's low in implied volatility, which we infer from the pricing of options, and the options markets. Part of that, I think, makes perfect sense in the context of what truly is a remarkably stable, fundamental environment. We haven't had a recession for a long time. We've had average inflation, we've got generally high levels of employment. There's just not a lot of variability in the economic news, which translates into less variability in financial market prices.

But I think some of it is a little bit disconcerting, and could reveal a kind of complacency among investors, where indiscriminately, investments are being deployed in index fashion, in regimented fashion. It's bidding everything up, and it's stabilizing markets, to a level that is rarely seen.

If you have an investment idea, and it turns out to be a correct one, when volatility's low, even correct decisions don't seem to pay off as much. And there's a temptation to scale your positions aggressively in this environment, which I think would be a bit of a mistake. So stick to your strategies, stick to your normal position sizing and allocation sizing methodologies, and, don't try to force more risk into the portfolio just because we're in a low volatility environment.

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