Look Less, Sleep Better

The recent spate of choppy markets (up one day, down the next, up the next) has been accompanied by some articles suggesting that the fewer times we look at the markets, the less risky they seem to be. And you know that to be true based on recent experience. In late March, somebody who was looking at daily price of the S&P 500 movements would have seen the markets go down 0.04%, then up 1.13%, then down 1.23%, then up 1.43%, then up 0.5%. If that same person had simply been looking at returns at the end of each week, the volatility would have been washed out; he or she would have seen a gain and nothing to worry about.

Looking once a month or once a year smooths out the returns even more, of course—and you can best see how this works when you consider the value of your house. It’s not reappraised every day, week, month or year, and chances are you aren’t fretting about whether it’s more valuable today than it was yesterday or last week. Any price movements only show up when it’s time to put your home on the market.

Interestingly, the same is also true of the calculations that are made by professionals to precisely define the riskiness (or volatility) of a particular investment. The most commonly used measure is the standard deviation—the higher it is, the more the investment price will swing back and forth. Most often, this calculation is made by considering the average of five years of returns and the average of the variances oner those five years. But if you were to use one-year numbers instead of five years, the standard deviation would be higher; if you were to use ten years, on the other hand, the risk calculation would go down.

The charts shown here offer a similar perspective; you can see how choppy (and scary) market movements look over a couple of months, or a couple of years, or over more than 10 years. If Rip Van Investor were to go to look at the markets, then go to sleep for a decade, wake up and check his portfolio once again, chances are, over any time period, the view would range from reassuring to something to uncork a bottle of champagne over. He would have saved himself a lot of aggravation that a lot of us put ourselves through needlessly.

Source:

<https://www.macrotrends.net/2526/sp-500-historical-annual-returns>