Autumn 2023

Most of us do our best to avoid people, places, and situations that are volatile. The reason, of course, is they generally involve risk.

When it comes to investing – especially in the capital markets – most equate volatility with risk. We believe this is misleading. That statement alone is risky on our part.

Please allow us a moment to explain our view on this volatile issue.

Generally, when the word volatility is used in reference to investing, it is used to describe a large decline or a period of rapid ups-and-downs in prices or returns.

Let's first look at how volatility is defined from a well-trafficked investing website – Investopedia.

> Volatility is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the ***riskier*** the security.

Indeed, volatility is the statistical measure of the dispersion of returns for a given investment or portfolio. However, an investment or portfolio with a higher dispersion of returns does not necessarily mean it is risky. It just means the returns had a higher degree of variability around the average of the investments individual returns over a given time period. So, let's simply redefine volatility as variability.

As such, variability is not risk – unless you're forced to sell into the downside of the variance. It's risky to take on too much variability when your time horizon is short, and you don't have ample stable assets to access if necessary. Otherwise, with adequate time and assets, you can hold a great investment through periods of variability – especially the downside.

Variability can provide an opportunity for disciplined investors. We should, in the words of Warren Buffett, view it as "our friend, rather than our enemy; profit from folly rather than participate in it."

Remember that investing in the market is buying and selling ownership of a business. If careful analysis tells us the intrinsic value of a business, the current price merely tells us if it's overvalued or undervalued.

An allegory, created by famed analyst Benjamin Graham, helps demonstrate this. Imagine you co-own a healthy, stable, growing private business with Mr. Market, an emotional guy who swings from wildly optimistic to darkly pessimistic. Every day, Mr. Market comes to you and either offers to buy your interest in the company or sell his share to you. When he's feeling sunny, he offers a very high value or price to buy your share. When he's sure the sky is falling, he offers a very low one to you. And he's persistent. If you're uninterested in an offer, he'll be back the next day with a new one. You know that the gloomier Mr. Market

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is, the better chance that one day he will offer to sell you his share at a price so low as to be considered foolish (folly, if you will). And this is the time when you profit.

Variability can help correct market imbalances. In many ways, the investment world is Darwinism, survival of the fittest, and higher variability often thins the herd. In periods of higher variability, corporate shortcomings may be exposed, and investors who bought without studying the company fundamentals often sell in droves.

We are always looking for those opportunities created during a high variability market, and we're also buying companies and asset classes of different characteristics—in essence, diversifying across various economic sectors and geographic regions, as well as big and small companies and fixed income and equities. We also set risk parameters, knowing that if we can reduce variability, we may be better able to control the emotional response to variability, especially the variability of the downside variety.

Of course, there are always bumps along the way when it comes to long-term investing. But we prefer to focus on the steady upward slope of wealth-building over time, rather than the jagged lines of the day-to-day "volatility" graph.

So, as you read or hear about market volatility in the future, as you undoubtably will, please remember this. Don't think of it as volatility. Or risk. It's variability. And then recall the old story about the young man who found himself next to the late J.P. Morgan. Hoping to capitalize on the moment, he asked the famed financier his opinion on the future course of the stock market. "Young man," Morgan replied, "I believe the market is going to fluctuate."

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