



Intraday Noise vs. Long-Term Volatility

Market volatility is often treated as one concept, but it is really two. Short-term volatility is the intraday fluctuations that occur in the market and is generally a weak predictor of long-term returns. Long-term volatility is movement in the market that occurs over a multi-year horizon. This is what gives your investments time to compound. Staying consistently invested in the market is best path to long-term wealth creation whereas decisions based on short-term volatility can decimate returns. Think of short-term volatility as the price of admission for long-term returns.



When markets move quickly, it is easy to assume that something is “wrong.” More often, what you’re seeing is short-term volatility. Short-term volatility is often driven by headline reactions, positioning, and changing expectations of economic data. These daily swings, sudden pullbacks, and quick rebounds can feel uncomfortable, but they are expected. These knee-jerk reactions may seem very important at the time, but experienced investors know these sudden shifts are a mere blip along the path to compounded returns. The biggest danger of short-term volatility is not the volatility itself, but rather the decisions that it can trigger.

Long-term volatility does not get as much attention as its short-term counterpart, but it is far more important. This type of volatility is what gives your investments time to compound, and it is tied to your liquidity

needs, your time horizon, and your risk capacity. As a result, your long-term volatility may be different than another investor’s. That is why once you establish your unique long-term goals, it is important to tune out the noise and stay consistent. The goal is not to eliminate short-term volatility; it’s to manage your portfolio in such a way that volatility does not result in bad decisions.

To properly manage your investment decisions, focus on the things that you can control. Before making changes during volatile markets, ask yourself the following questions:

1. Has your investment time horizon changed?
2. Have your liquidity needs over the next 12-24 months changed?
3. Has your risk tolerance changed in a lasting way?

If the answer to any of these questions is “yes,” you should begin carefully reevaluating your investment plan to see if any changes are necessary. You should not immediately make changes to your investment plan. Don’t let short-term moves rewrite your long-term plan.

Long-term results are built through time and discipline, especially when markets are noisy. Though short-term volatility and intraday fluctuations can be uncomfortable, it is rarely a reason to abandon a well-constructed strategy. As long as your long-term horizon is intact, stick with what you planned and stay the course.

Important Notice: The opinions and analysis expressed in this document are those of Karpus Investment Management staff, are subject to change based on evolving market and economic conditions. While Karpus has used reasonable care to obtain information from reliable sources, no representations or warranties are made as to the accuracy, reliability or completeness of any third party information presented herein. No responsibility can be accepted under any circumstances for errors of fact or omission. This is being provided for educational purposes only.