



# Volatility

Understanding the ups and  
downs of investing

# Volatility – understanding the ups and downs of investing

Volatility is a feature of virtually any investment type, meaning the journey towards your long-term financial objectives is likely to contain ups and downs along the way. Here we take a closer look at volatility, the importance of time and the power of diversification – spreading your investments across different assets to reduce risk.

Investing in anything other than cash is a medium to long-term commitment – that means at least 3-5 years. However, since the economy usually moves through periods of growth and downturn over about 7 years, that might be a more realistic time-frame to consider. But why does time matter?

First, it usually takes time for an investment to come to fruition. If you buy shares in a company on the basis that it looks well placed to prosper in the future, then it's logical that it will take time for that potential to be fulfilled. After all, very few businesses are an overnight success.

## Volatility – a normal feature

There's another reason for taking a long-term perspective – something called volatility. The chart below shows the UK stock market's performance over 10 years – the trend is upwards and had you invested at the start of 2015 the chances are you'd have made decent gains along the way. Over shorter periods though,

you can see that the market has experienced more pronounced ups and downs.

In simple terms, volatility is a measure of the size of short-term changes in the value of an investment. Volatility is a feature of virtually all investment options and whilst the long-term outcome may be a positive one in terms of returns, the journey is likely to be one that contains ups and downs along the way.

There are no guarantees of course, and volatility may mean that you may not get back the original amount invested when you decide to withdraw your investment.

In simple terms, volatility is a measure of how much an investment's value goes up or down in the short term.

## UK stock market's performance over 10 years



FTSE All-Share total return. Source: Lipper, as at 31-Dec-24

Past performance should not be seen as an indication of future performance.

# The power of perseverance – time in the market

Time is important because a longer time period smooths out the influence of volatility.

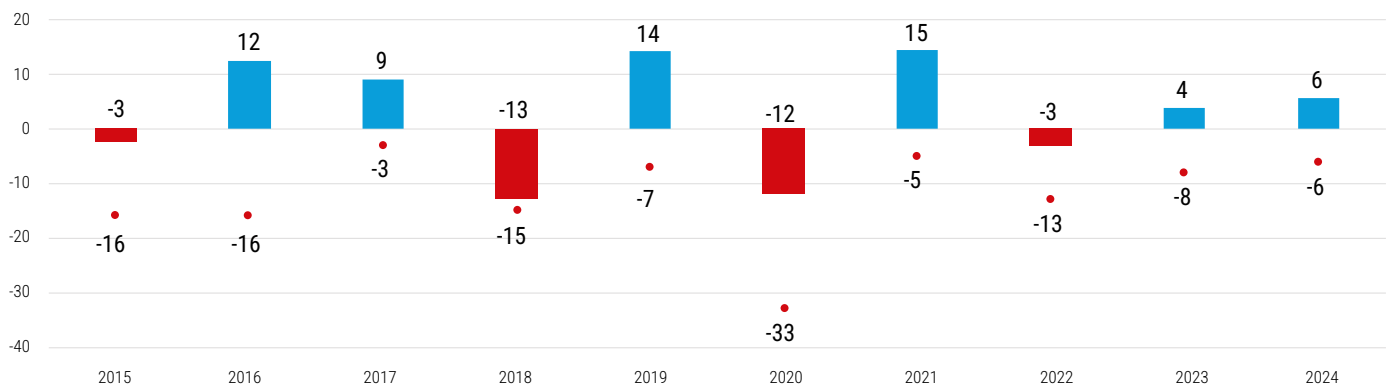
The value of investments can rise and fall for many reasons, and sometimes these changes can be quite large. The bar chart below shows how UK stock market performed each year from 2015 to 2024. In 6 of those 10 years, the market went up (shown by the blue bars), but in some years (shown by the red bars), share prices fell. The key takeaway is that if you had invested for a long time, the good years would likely have outweighed the bad ones.

Looking closer at each year, the orange dots on the chart

highlight the biggest drop in the value of UK shares within that year. In 9 of the last 10 years, the market has fallen by 5% or more at some point. However, in half of those years, the market recovered and ended the year higher.

This shows that ups and downs are a normal part of investing in UK shares. But time and time again, staying invested for the long term has proven to be beneficial - time in the market. By keeping a long-term view, you have a better chance of seeing your investments grow despite the short-term ups and downs.

FTSE All-Share intra-year declines vs. calendar year returns



Source: Columbia Threadneedle Investments. Returns shown are price returns in GBP. Intra-year declines means the biggest drop in value from the highest to the lowest point within a single year.



# Time not timing

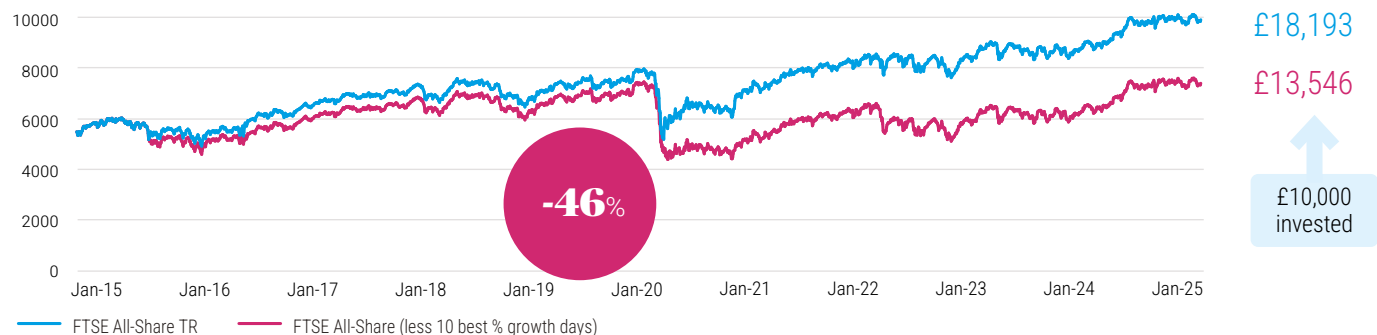
But is it possible to time the market? Investment ‘nirvana’ would be the ability to invest during periods when the market is rising and avoiding times when it’s falling.

## 10 Years of Investing: The cost of missing the best growth days

Trying to predict the stock market is nearly impossible. No one saw the market swings caused by the COVID-19 pandemic and global events like the war in Ukraine. With so much uncertainty, trying to get in and out of the market at the right time is extremely risky—and missing just a few of the best-performing days can have a huge impact on overall returns.

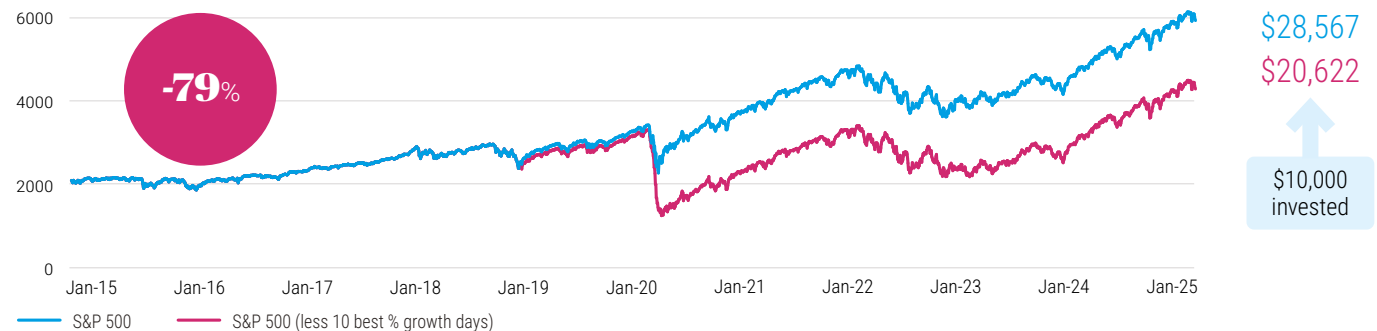
The charts below show how the stock market has performed over the last 10 years in both the UK (FTSE All Share) and the US (S&P 500, which includes big names like Apple, Microsoft, and Amazon). They compare how a \$/£10,000 investment would have grown if left alone versus **what happens if you miss just the 10 best days** in the market. The difference is striking, proving that staying invested for the long term is often the financially better move.

### FTSE All-Share



Source: Lipper, as at 31-Dec-24 sterling, total return.

### S&P 500



Source: Lipper, as at 31-Dec-24, sterling, total return.

For illustrative purposes only. The mention of any specific shares or bonds should not be taken as a recommendation to deal. Past performance does not predict future returns.

**Past performance should not be seen as an indication of future performance.**

# Back to basics

## – diversification matters

Why spreading your investments can potentially lead to a smoother, more reliable return.

As we have seen previously, market ups and downs are a normal part of investing. Over time, these fluctuations tend to even out, but in the short term, sudden drops in value can be unsettling. That is why it is important to think about ways to manage the impact of market swings.

One of the best ways to do this is through **diversification** – which means spreading your money across different types of asset classes, for example equities, bonds, and property. Each of these different asset class have historically behaved differently in different market conditions. While one may be struggling, another might be doing well. By holding a mix of

assets, you reduce the risk of any single asset class having too big an impact on your overall returns.

The chart below shows how different types of assets classes perform from year to year.

A top performer one year can fall behind the next. But if you had invested equally across all asset classes, your returns would have been more consistent, averaging **6.85% per year, as indicated by the black box in the table**. This approach helps smooth out the highs and lows, making for a steadier investment journey.

Pin the tail on the donkey – asset class performance varies year on year

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Best	15.86	31.65	25.16	3.25	24.66	20.08	25.69	1.28	16.75	22.15
	9.58	30.82	24.70	0.43	22.50	16.33	18.45	-1.95	14.03	10.21
	9.57	25.91	17.67	-0.06	20.34	13.89	17.16	-7.03	11.78	9.05
	6.40	23.47	17.33	-1.32	19.90	13.72	15.61	-8.07	10.93	8.66
	4.91	16.81	14.08	-2.16	17.18	10.48	7.32	-8.24	9.23	8.82
	4.90	15.29	11.73	-3.50	15.82	8.98	7.01	-9.19	7.40	8.21
	3.31	12.54	11.39	-5.80	15.78	7.74	4.35	-9.24	7.27	8.08
	0.47	11.58	10.08	-9.76	13.68	6.08	1.70	-9.62	6.94	6.85
	0.25	11.19	7.54	-10.50	11.48	3.57	1.37	-9.89	4.71	5.21
	0.24	9.75	5.78	-11.18	9.51	0.43	-0.05	-9.98	4.24	2.7
% Annual Returns	-0.02	8.84	5.13	-11.34	6.90	-5.29	-0.32	-12.40	3.59	1.79
	-3.06	0.48	1.74	-11.39	0.72	-6.21	-1.90	-16.32	0.16	0.62
	-9.37	0.39	0.18	-12.06	-0.59	-10.78	-5.28	-24.35	-0.87	-3.3
Worst										

IA £ Corporate Bond

IA £ High Yield

IA Asia Pacific Exc Japan

IA Europe Excluding UK

IA Global Emerging Markets

IA Japan

IA North America

IA Standard Money Market

IA UK All Companies

IA UK Direct Property

IA UK Equity Income

IA UK Gilt

Equally Weighted Portfolio

Source: Lipper, as at 31-Dec-24. IA = Investment Association.

Holding a mix of different assets can help reduce big ups and downs in performance, making for a smoother path towards reaching your investment goals.

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