

ABOVE THE FRAY

Looking to Stick the Landing? Shake Off the Volatility.

Samuel Dinamarca, CFA
Associate Investment Strategist

Matt Lipps, CFA
Investment Strategist

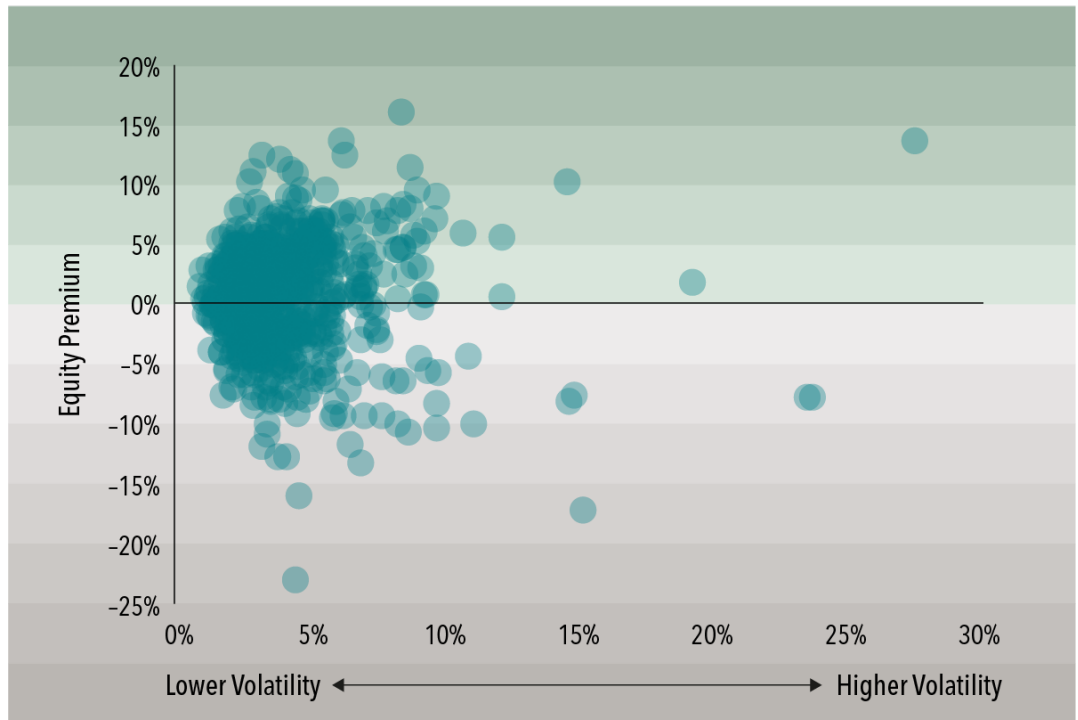
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The US stock market has been on a winning streak, so some investors may have been jolted when the S&P 500 fell more than 6% from July 31 to August 5. The Cboe VIX Index, a measure of US stock market volatility, reached 65.7 on August 5. This was its highest level since the COVID-19 pandemic and the largest one-day increase since 1990.

Historical data reminds investors that investing is more of a marathon than a sprint, and short-term volatility is not a reason to take your eyes off the prize. Research shows there is no reliable pattern to suggest that realized volatility is a good predictor of lower (or higher) market returns. So, while an uptick in volatility may make investors uneasy, sitting on the sidelines is unlikely to serve investors well. In fact, a month of top-decile volatility is on average followed by a month with a positive equity premium.

Investors and athletes alike must shake off temporary setbacks and stay focused on the goal ahead if they want to stick the landing.

Exhibit 1
Monthly US Equity
Premium vs. Prior
Month Volatility
 July 1963–June 2024



Past performance is not a guarantee of future results.

The figure plots the monthly equity premium against the one-month lagged US equity market volatility. Monthly US equity market volatility is measured using the standard deviation of daily US equity market returns. US equity market is the Fama/French Total US Market Research Index, and equity premium is the US Mkt-Rf factor from the Fama/French five-factor model. Data provided by Fama/French. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP. The Dimensional and Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. See "Index Descriptions" for descriptions of Fama/French index data. Please see "Data Appendix—Fama/French Factors" for more information regarding the factors shown.

This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

INDEX DESCRIPTIONS

Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French website.

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance

results assume the reinvestment of dividends and capital gains.

DATA APPENDIX—FAMA/FRENCH FACTORS

Fama/French Mkt-Rf: The excess return on the market, value-weighted return of all CRSP firms incorporated in the US and listed on the NYSE, AMEX, or Nasdaq that have a CRSP share code of 10 or 11 at the beginning of month t , good shares and price data at the beginning of t , and good return data for t minus the one-month Treasury bill rate (from Ibbotson Associates).

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