



Basis Points – March 12, 2020

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Above the Fold

What Does Volatility Actually Mean?

The word volatility is a catch-all term, used by the media, finance professionals and even consumers. One can assume that volatility refers to movements in stocks and bonds being greater than the typical, but what does that mean exactly? Is it a bad, good, or simply nebulous, misused term? Let's quickly explore this increasingly popular word.

We've talked before about how the market sets expectations in both direction and variation. Economists, analysts and everyday investors use what data we have to try to anticipate a rhythm to the market's random walk. This anticipated cadence impacts everything from the prices of equity options to how analysts place their target prices for stocks. Pros generally look back in time

for patterns in order to make projections, and after some number crunching, derive a number deemed to be “normal volatility.” Movements outside that range are said to be “volatile” experiences.

To simplify, volatility is typically expressed in percentage terms as an annualized standard deviation. And if you’re wondering what “normal” is, the [annualized volatility](#) of the S&P 500 between 1926 and 2017 was 15.2%. This means that markets had roughly a 70% chance of moving up or down 15.2% in a full year. More dramatic rallies or selloffs tend to be “outliers” or rare occurrences and are usually followed by a return to more “normal” patterns or a reversion to the mean.

The point is that volatility is fluid and periods of extremely high (or low) volatility are perfectly acceptable. Elevated volatility bouts can temporarily disrupt logical pricing and behavior, but can also bring tremendous opportunities for those who are prepared.

Three Things

1. *Counterfitters and Scammers Leverage Frenzy* – As consumers globally scramble to hoard everything from toilet paper and hand sanitizer to rubber gloves and face masks, shady online retailers are mislabeling, misleading and overcharging them. A recent Wall Street Journal investigation revealed hundreds of products that were counterfeit replicas or deceptively labeled on Amazon.com alone. The online retail giant is not standing idly by, as it’s already removed 530,000 potential scam offers and suspended 2,500 accounts due to COVID-19-related price gouging and/or false advertising.
2. *Hacking Siri, Silently* – Research recently revealed that tech-savvy criminals can use inaudible ultrasound waves to force Siri, or just about any voice-activated assistant to make fraudulent calls or by triggering nefarious SMS codes to gain access to your accounts. Called a SurfingAttack, experts say you can avoid it by keeping your phone in your pocket and avoiding setting it down in public places. Disabling voice assist while in lock mode will also help prevent a breach.
3. *Pepsi “Rocks” Out* – In another bid to expand its reach into the lucrative energy drink market, PepsiCo has agreed to purchase Rockstar Energy Beverages for \$3.85 billion. PepsiCo is already the distributor for Rockstar and is likely looking to get a leg up on Coca-Cola, who has a stake in publicly traded Rockstar competitor (and industry dominant) Monster Beverage Corp. The move continues to support the soft-drink giant’s pivot away from sugary drinks and into more low-calorie options that support a “healthier” lifestyle.

Did You Know?

COVID-19 Update

U.S. cases of the new coronavirus topped 1,000 Wednesday as the leaders of several nations seemed to shift away from containment efforts to more realistic tactics that prevent panic, slow transmission and protect health systems from being overwhelmed. In Europe, the U.K. and in the U.S., leaders are shifting their messages to bring citizens to the realization that large numbers of people are likely to contract the cold/flu-like illness and that practicing smart hygiene and keeping interactions as minimal as possible will keep health services available for high-risk patients who need it most. Governments and the private sector are also working on solutions to alleviate the economic impact and give consumers added relief in the coming months.

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