March 2018
Ask a Trust Officer

Stock market volatility

Dear Trust Officer:

What's up with the stock market? Market indices went into correction territory in February, but have since recovered somewhat. Are we out of the woods now?—*Nervous investor*

Dear Nervous:

The February stock price volatility was fed in part by a record level of margin debt. Some investors borrow against the value of their portfolio to create leverage to enlarge their holdings so as to magnify benefits in a rising market. That's great until the market starts to fall, because if the value of a portfolio falls too much, there will be a margin call. Some securities then will have to be sold, which adds still more selling pressure to the market, driving prices still lower. That is what happened.

According to the Financial Industry Regulatory Authority, margin debt reached a record $642.8 billion earlier this year. That's sharply higher than the $350 billion level in 2011. In 2014 it crossed $500 billion for the first time. A *Wall Street Journal* item quoted Goldman Sachs data showing that margin debt has reached 1.31% of the value of stocks on the New York Stock Exchange, surpassing the 1.27% peak reached just before the bursting of the tech bubble in 2000.

In addition to this factor, many investors had been placing bets on a lack of volatility in the market, bets that paid off handsomely. Until February. Then they went deep into the red.

These factors have not gone away, so we expect that price volatility may be returning to more normal levels. What's more, the Fed has signaled that additional interest rate increases are coming later this year, and their effect on the markets is unknown.

Stock market investors never really are "out of the woods." Eternal vigilance is the price of portfolio management, unless you have turned the job over to a professional.

Do you have a question concerning wealth management or trusts? Send your inquiry to Trust@countryclubtrust.com

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