

Volatility Rules

Trump's first 100 days have been characterized by Executive Order after Executive Order (more than 140 of them!). Among these orders has been the announcement of punitive tariffs on multiple trading partners. We are currently in a 90-day period when the tariffs are dormant subject to negotiation. However, this is the kind of event that clouds economic outlooks, and cloudy outlooks bring a favourite bedfellow - volatility. It's a good time to reflect on what volatility is and how we should respond to it.



**Robin
Gibson**

Investors detest volatility. Rather, they like their investments to move smoothly upwards over time. When graphed, that's from bottom left to top right. Sadly, in order to benefit from the inflation-beating growth that riskier investments produce, volatility has to be accepted as a Siamese Twin that comes with it.

So where does volatility come from? To answer that question, we need to understand how risky assets are priced. Since for the most part we deal with shares listed on stock exchanges, I am going to focus on the pricing of those instruments.

Stock markets are really just giant automated auction floors. The exchange itself is the auctioneer. Each share is a separate auction.

Investors list the number of shares they wish to sell and at what price. On many shares there's a list starting from the cheapest to the most expensive sale price. Simultaneously,



The stock market reflects the total sum of current buyers and sellers for a particular stock minute by minute, second by second.

SPEED READ

- Trump's latest tariff pronouncements have injected fresh volatility into global markets.
- Volatility is the price of earning long-term, inflation-beating returns.
- Stock markets operate as live auction platforms, where sentiment drives prices.
- Periods of volatility often create golden opportunities for disciplined investors.

there is a list of buyers and the price they are prepared to pay. When a buyer decides they want to accept an offer price, or a seller agrees to accept a bid price, a transaction is concluded, and that price becomes the ruling price for every investor who holds that share. At the close of the

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last day of the month the last ruling price determines the value reported to investors in statements.

It is basic economic theory that prices rise when too many buyers chase a shortage of goods and prices fall when too many sellers cannot find enough buyers.

During the course of a largely sedate environment, buyers and sellers make assumptions about the future of earnings of companies and those assumptions then drive

the assessment of what people are prepared to buy or sell companies for. Clearly on any given day, information on this or that company may drive an individual share price up or down.

Then occasionally a global event, such as a banking crisis, a war, a terrorist event or a politician's pronouncement, creates an environment where no one is sure about the environment and especially the future of earnings.

At that point most buyers adopt a wait-and-see attitude, one for every company they hold. This is every seller's (and auctioneer's) nightmare! Buyers withdraw, leading to steep falls in prices, as eventually, desperate sellers accept basement prices from bargain seekers, resulting in the ruling price plummeting.

At some point hungry accumulators sense an opportunity

“Seldom does volatility accurately reflect any company's real value.”

and mop up big pockets of shares and the share price leaps, possibly to fall again as some fresh news creating confusion causes investors to withdraw once more. The resultant big daily or weekly changes in ruling price becomes visual to all as volatility.

Seldom does volatility accurately reflect any company's real value. In fact, volatility provides long-term investors and income-based investors, like Harvard House, with excellent opportunities for accumulation of some exceptional long-term quality assets as all shares are painted with the same brush of concern.

No one likes volatility, but true long-term investors recognize it as a necessary part of successful investing strategy and as an opportunity for exceptional wealth accumulation.



The New York Stock Exchange is the ultimate auction house, with billions of shares traded or auctioned, daily.



Our next Insight seminar will be held in June. As usual, we will take stock of how our economy and markets are faring six months into the year."



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Topic: **Mid-Year Update**

Natal Midlands

Date: 12th of June 2025

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 3rd of June 2025

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: 5th of June 2025

Venue: SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor

Time: 7.30am

Venue: ABRU Motor Studio, Lourensford Wine Estate, Somerset West

Time: 5.30pm for 6pm



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