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THE REGISTER CITIZEN

MARKET MATTERS: Finding rhythm in market volatility

Joseph Matthews

By Joseph Matthews

If you have spent any time in the past year watching the movement of the stock market, you may well have become somewhat of an expert — on chaos theory.

Some days it goes down when you think it would gain, and sometimes it swings upward on what seems to be negative news. At times, the slightest indication that a reliable indicator is off by mere tenths of a percentage point can prompt a nosedive.

So what gives?

Seasoned professionals with in-depth financial knowledge and experience tend to be reasonably able to see developing trends, in the market overall and in specific industry sectors. But even the best of analyses can be undone by unpredictable events across the spectrum, whether it be a terrorist attack, major weather event or — as we saw earlier this month — a change in the direction of the Federal Reserve's policy on interest rates.

But in the main, I find there is a rhythm to the market, and if one is in sync with that rhythm and the outside forces that can affect it, we can be better positioned in the long term.

Take a look at the past few months, for instance. The Dow Jones Industrial Average started out the year in the 17,000 range, but a series of scares on China's economy and plunging oil prices caused a significant drop by mid-January.

Even though the market appeared to be recovering by the end of January, it continued to decline. On Feb. 11, it headed downward again, closing the day at 15,660 points after spending part of the day even lower, with volatility stemming from investor uncertainty about the world economy and worries over the continued slide of oil prices.

But the next day, fears subsided and the market began a long climb upward. Despite some analysts' fears and predictions that the opening month heralded bad news for the remainder of the year, stocks have rebounded significantly. By March 21, the Dow closed at 17,623, having earned back much of the loss from the early weeks of the year.

Nonetheless, after an extended upturn, the market again headed into negative territory on the heels of deadly terrorist attacks in Brussels. The downturn continued on March 23 with the market slipping to 17,502 at the closing bell.

Although counterintuitive, one support for rebounding stock prices was a resurgence in oil prices, which seem to be directing the mood of the market. Of course, oil has not returned to the $100 per barrel price of the recent past, but it is in the $40 per barrel range, higher than the lows it had seen only weeks earlier.

Market analysts watch these trends closely, as well as many others that can give us early warning hints of future market volatility. The previous month's employment figures are released during the beginning of the following month, for instance, and in the technology sector, quarterly earnings reports are closely watched.

This intricate web of dependent sectors and industries is not impenetrable, but it requires time, patience and knowledge to make sense of what is happening and what could happen as a result. The key to understanding the apparent whims of the stock market lies in understanding the myriad factors that make up its foundations and how they work together — even in times that appear to be chaotic.

Joseph Matthews is a Financial Advisor with the Global Wealth Management Division of Morgan Stanley. He works at the firm's offices in New Haven and Fairfield and can be reached at 203-319-5165 or by email at joseph.matthews@morganstanley.com. *The information contained in this column is not a solicitation to purchase or sell investments. Any information presented is general in nature and not intended to* *provide individually tailored investment advice. The strategies and/or investments referenced may not be suitable for all investors as the appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.*