Buffet believes market volatility a gift to savvy investors

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In my most recent column, I stated ***extreme volatility is the norm for the stock market***. Between 1980 and 2017, calendar year returns for the S&P 500 Index ranged from +34% to -38%, heavenly on the upside but harrowing on the downside. During this period, the average intra-year peak-to-trough drop was a frightening 13.8%, but the S&P still had positive returns in 29 of 38 years (75% of the time).

Further, ***the great news is the longer your time horizon stretches, the less important this short-term volatility becomes.*** Crandall, Pierce & Company gathered monthly returns for the S&P from January 1950-September 2018 to calculate rolling one-, three-, five- and ten-year returns, which showed that, ***as your time horizon lengthens, the range between the best and worst return shrinks, the worst return is smaller and the percentage of positive returns increases.***

For example, for rolling ***one-year periods***, the average return was 12.5%, the best was 61.2%, the worst was -43.3% and ***returns were positive 79% of the time***. On the other hand, for rolling ***ten-year periods***, the average return was 10.4%, the best was 19.5%, the worst was -3.4% and ***returns were positive 97% of the time.***

Warren Buffett understands ***extreme short-term volatility is not only normal, it's necessary for generating great long-term returns.***

In a 2001 interview in *Fortune*, Buffett said, "This is the one thing I can never understand. To refer to a personal taste of mine, I'm going to be buying hamburgers the rest of my life. When hamburgers go down in price, we sing the 'Hallelujah Chorus' in the Buffett household. When hamburgers go up, we weep."

"For most people, it's the same way with everything in life they will be buying—***except*** stocks. When stocks go down and you can get more for your money, people don't like them anymore."

Further, as Buffett said in Berkshire-Hathaway's 2013 annual shareholder letter, "it should be an enormous advantage for investors in stocks to have those wildly fluctuating valuations placed on their holdings – and for some investors, it is. After all, if a moody fellow with a farm bordering my property yelled out a price every day to me at which he would either buy my farm or sell me his – and those prices varied widely over short periods of time depending on his mental state – how in the world could I be other than benefited by his erratic behavior? If his daily shout-out was ridiculously low, and I had some spare cash, I would buy his farm. If the number he yelled was absurdly high, I could either sell to him or just go on farming.

"Owners of stocks, however, too often let the capricious and often irrational behavior of their fellow owners cause them to behave irrationally as well. Because there is so much chatter about markets, the economy, interest rates, price behavior of stocks, etc., some investors believe it is important to listen to pundits – and, worse yet, important to consider acting upon their comments.

"Those people who can sit quietly for decades when they own a farm or apartment house too often become frenetic when they are exposed to a stream of stock quotations and accompanying commentators delivering an implied message of "Don't just sit there, do something.""

"For these investors, liquidity is transformed from the unqualified benefit it should be to a curse. A "flash crash" or some other extreme market fluctuation can't hurt an investor any more than an erratic and mouthy neighbor can hurt my farm investment. Indeed, tumbling markets can be helpful to the true investor if he has cash available when prices get far out of line with values. ***A climate of fear is your friend when investing; a euphoric world is your enemy."***

Focus on what you ***can*** control and try not to fret about what you ***can't.*** Extreme short-term volatility ***can*** be a gift to long-term investors, ***if*** you let it. The last couple months have been scary and I have no idea where stocks will be a year from now. But history suggests investors with the courage to stay the course will be rewarded over the next ten years.
