BEA MPF e - Newsletter

June 2026

What's New

BEA MPF Investor Education

Reading the Market's "Heartbeat":
A Guide to Fund Volatility Indicators

Market volatility has been frequent in recent years. From the Federal Reserve's interest rate direction, shifts in tech stock valuations, and government fiscal policies, to geopolitical risks, everything has made market trends difficult to predict. To navigate fluctuating market conditions with ease, investors must first understand what "volatility" actually represents.

In the world of funds, **"Volatility"** refers to the range of changes in a fund's price (i.e., Net Asset Value, NAV) over a period of time. Many investors often feel anxious when they see prices rising and falling sharply. However, volatility is not a monster; rather, it is the natural rhythm of market operations. Learning to observe, understand, and manage volatility is an important step toward becoming a mature investor.

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How to Distinguish Between High and Low Fund Volatility?

If a fund's price frequently fluctuates sharply, it is considered to have high volatility. Conversely, if its trend is stable with minor ups and downs, it has low volatility. Generally speaking, fund volatility from low to high can be ordered as bond funds, mixed equity-bond funds, and finally equity funds.

Among these, high-yield bonds typically exhibit greater volatility than government or investment-grade bonds. Meanwhile, the volatility of single-market or emerging market equity funds is often more pronounced than that of income-focused or more diversified global equity funds.

The high or low level of volatility is neither absolutely good nor bad. The key lies in whether investors can withstand the impact brought by the fluctuations, which depends on an individual's financial situation, investment objectives, and length of investment horizon.

Commonly used indicators for measuring fund volatility?

There are multiple ways to understand a fund's volatility, including using standard deviation and beta. They reflect the characteristics of a fund's price changes from different angles, allowing investors to gain a more comprehensive understanding of volatility risk.

Standard deviation measures the degree to which a fund's returns deviate from its average. If a fund's returns frequently deviate significantly from its average level, the standard deviation will be high, indicating high volatility. Conversely, if returns are mostly concentrated around the average, fluctuating slightly up and down, the standard deviation is low.

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For example, suppose Fund A and Fund B both have an average annual return of 8% over the past five years. However, Fund A's annual returns range from approximately 7% to 8%, with a standard deviation of about 0.6%. Meanwhile, Fund B's annual returns range from -5% to 22%, with a standard deviation of about 8.7%. Clearly, Fund B exhibits much higher volatility.

Comparison Item	Fund A	Fund B
Average Return Rate Over the Past 5 Years	8%	8%
Annual Return Range	7% - 8%	-5% - 22%
Standard Deviation	0.60%	8.70%
Trend Characteristics	Returns are concentrated around the average, offering higher predictability	Returns deviate significantly from the average, prone to sharp rises and falls.

However, a high or low standard deviation is not a basis for judging the quality of a fund. When making a choice, investors should consider standard deviation alongside historical returns, risk tolerance, and investment objectives to make a more comprehensive judgment.

Another indicator for measuring the magnitude of volatility is the beta value. Beta reflects a fund's sensitivity relative to the overall market (usually referenced against a benchmark index). If a fund's beta is 1: It means its price trend moves roughly in sync with the market. If the beta is higher than 1 (e.g., 1.1): It means the fund's volatility is higher than the market's. When the market rises by 10%, the fund may rise by about 11%; if the market falls by 10%, the fund may fall by about 11%. If the beta is lower than 1 (e.g., 0.9): It indicates the fund is relatively stable. When the market moves by 10%, the fund's price may only rise or fall by about 9%. Simply put, the higher the beta, the greater the fund's reaction to market volatility; the lower the beta, the more stable its volatility.

Like standard deviation, a high or low beta value does not reflect the quality of a fund's performance. It is merely reference data showing the correlation between the fund and the market, helping investors assess whether they can tolerate the corresponding level of volatility.

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Rationally Dealing with Market Volatility

Market volatility is inevitable, but investors must learn how to coexist with it rather than being passively affected by it. Diversification is an effective way to reduce risk. By holding funds across diverse asset classes, regions, or sectors, investors can lower the impact of fluctuations in any single market.

At the same time, regularly reviewing the investment portfolio and ensuring that asset allocation remains aligned with one's risk tolerance helps steadily advance long-term investment goals. On the other hand, adopting a Dollar-Cost Averaging (DCA) strategy can average out investment costs when the market is fluctuating, effectively reducing the impact of short-term volatility on emotions and decision-making.

Conclusion: Volatility is the "Heartbeat" of Investing

Volatility is like the heartbeat of investing—too fast or too slow can make people anxious, but without a heartbeat, the market would lose its vitality. The key is not to escape volatility, but to understand it and learn to find a rhythm within it. Only through risk diversification, regular portfolio reviews, and strategic rebalancing can investors go further amidst market ups and downs.