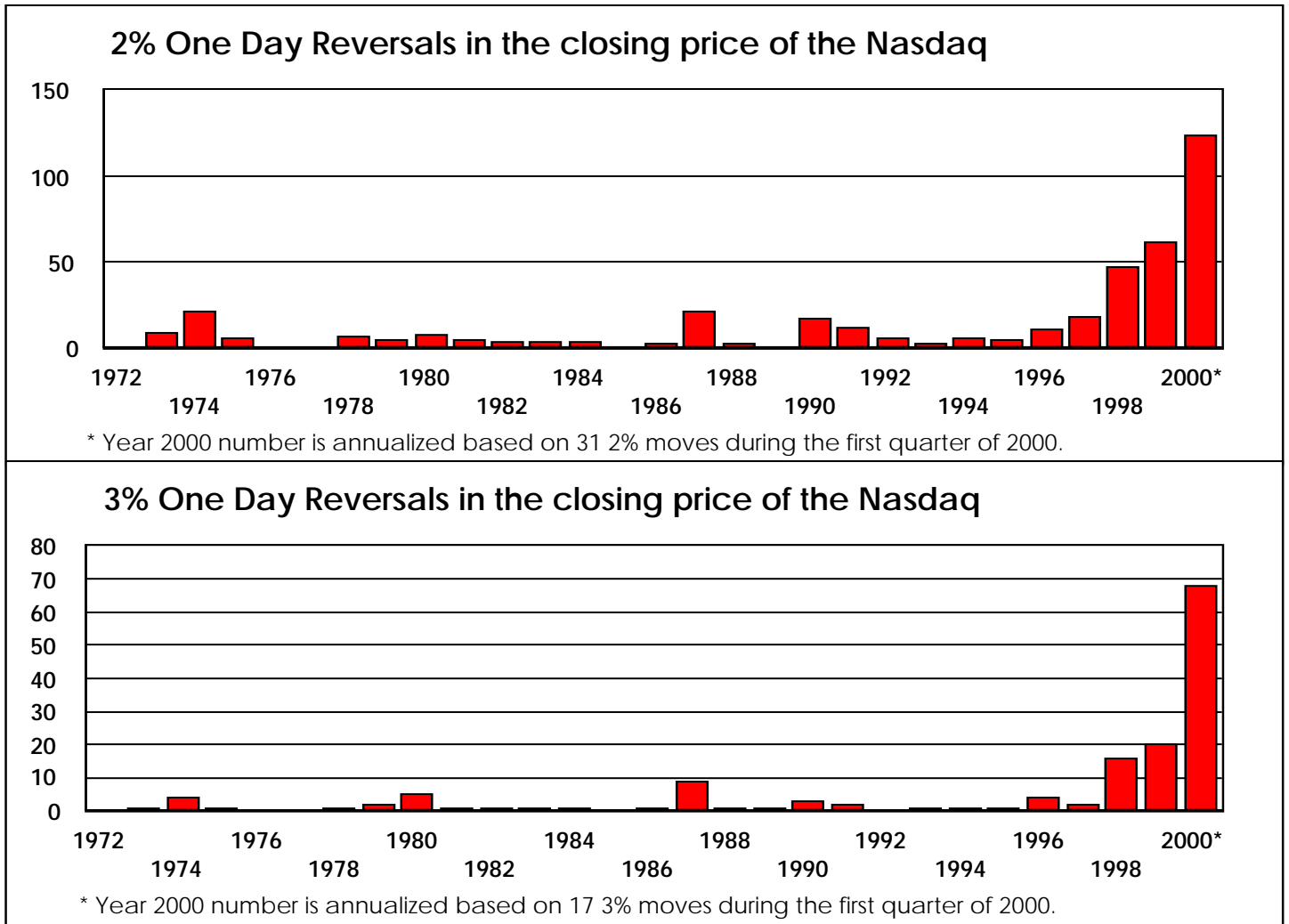


## The Nasdaq roller coaster Continued .... how does it stack up historically?

By Howard Spieler



As a follow up to our discussion last issue (regarding the increasing number of 2 and 3 percent one-day reversals on the Nasdaq Composite), we have examined the composite over a longer period in time. As you can see, the number of immediate one day reversals on the closing price of the Nasdaq - either 2% or 3% above or below the previous day's close - is significantly, if not alarmingly, higher than at any point since 1970.

A review of this chart shows four separate instances where volatility spiked sharply above the norm. The first occurs in 1973-1974, the last prolonged bear market for U.S. markets. The decline of 1974, which saw the Nasdaq decline from a high of about 135 at the end of 1972 to 60 in the fall of 1974, was especially brutal. The 2nd area that stands out took place in 1980, which had a nasty decline in February to March, which chopped about 20% of the value of the Nasdaq. The third period of high volatility took place during the period of the 1987 crash. The last two weeks of October alone saw seven days with swings of over 5%, including the 11% decline on Black Monday, the worst day ever. Of course, the day to day volatility of the very late 1990's - including the swings so far this year - is unprecedented. High volatility does not necessarily lead to market declines; yet, each previous period of high volatility mentioned has been connected to some serious market correction. Periods of high volatility usually do signal a transition period, for better or for worse, for the overall health of the market.

There is no easy answer on how to deal with the stock market volatility of the present market. We can only suggest that you remain diversified in your portfolio holdings, and invest only as much as you can handle from a risk viewpoint.