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US stocks are more volatile than you think

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Brian Garrett: The S&P 500 may be giving investors a false sense of calm.

The index has been rising quietly and dependably. I would argue that US economic data and earnings have been surprisingly strong. But there is something going on under the surface.

We've seen the assets managed by systematic option funds rise substantially. These funds tend to sell options. And the firms that buy these options aren't trying to predict the market's next move- so they'll dynamically hedge their exposure. In practice, this means that they'll sell when the market rises and buy when the market falls, which keeps the index in a tighter range. And it's one reason why we've seen the S&P relatively quiet while there've been large moves in individual stocks.

The good news for nervous investors is that given all the options selling, it hasn't been cheaper to hedge a portfolio in the last decade.

So for those worried that volatility could return, you've got options.

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