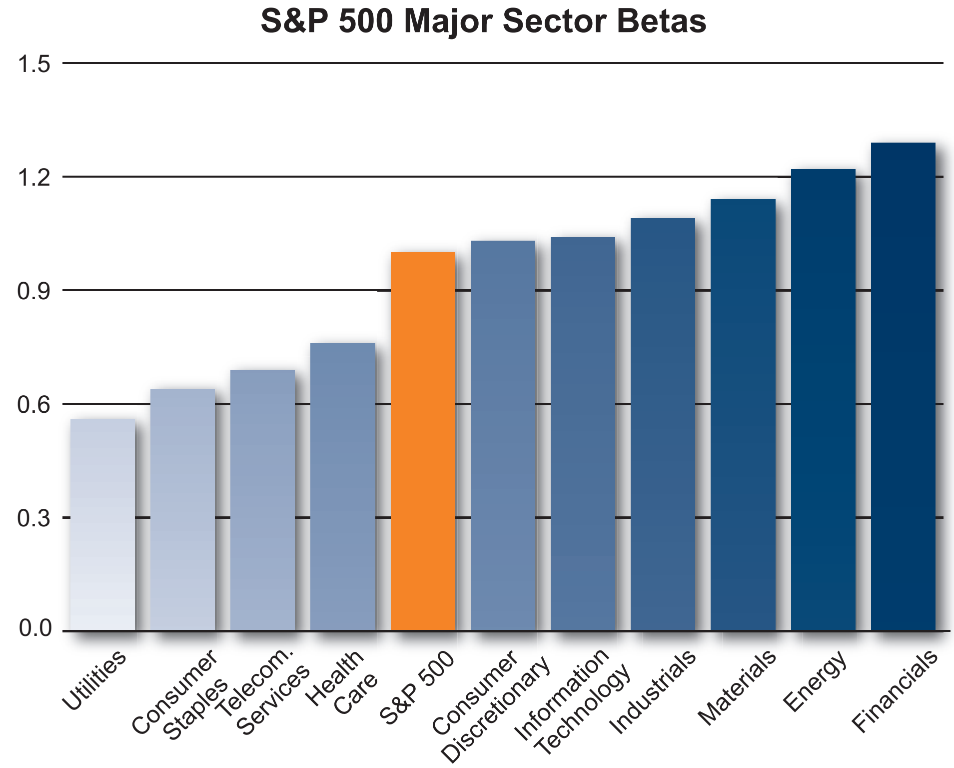
Betas Can Help Match One's Equity Holdings With One's Risk Tolerance



Source: Bloomberg 11/12/13

View from the Observation Deck

1. Today's blog post is a follow-up to last week's "This 50/50 Sector Combo Has Captured Upside While Mitigating Much Of The Downside" post that showed how investors can be defensive and still potentially build wealth.
2. Beta is just one way of measuring a stock's, or in this case a sector's, volatility relative to that of the broader market. In the chart above, the S&P 500 represents the broader market, and is assigned a beta base value of 1.00.
3. Those sectors in the chart with a beta of less than 1.00 are considered to be less volatile than the S&P 500, while those with a beta above 1.00 are considered to be more volatile.
4. Here are the sectors with current betas <1.00: 0.56 (Utilities); 0.64 (Consumer Staples); 0.69 (Telecommunication Services); and 0.76 (Health Care).
5. Here are the sectors with current betas >1.00: 1.03 (Consumer Discretionary); 1.04 (Information Technology); 1.09 (Industrials); 1.14 (Materials); 1.22 (Energy); and 1.29 (Financials).
6. Beta values can change over time. The S&P 500 Information Technology Index currently has a beta of 1.04, compared to 1.28 at the close of March 2000 (Internet Bubble burst), according to Bloomberg.
7. Monitoring key metrics like betas, price-to-earnings ratios and earnings estimates can help an investor adhere to their risk tolerance level as well as potentially exploit opportunities in the market, in our opinion.