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# **Finding The Stock Market Industry Beta For Your Advantage**

The Stock Market Industry Beta measures the movement of a stock's trading process compared to the market as a whole. By knowing this figure, a person will understand just how volatile stock is. A beta of 1 means a stock's price fluctuates exactly as much as the market. Having a beta less than 1 means that a stock is more predictable than the market, and a beta more than 1 means it is even more unpredictable than the market.

Beta isn't just for stock; it can also be used for industries. Industry beta compares the volatility of the industry to the whole market. For instance, technology stocks would be more volatile than the industry, so the beta would be more than 1.

To calculate industry beta you need some historical data of the price of the industry stock and historical price data of the entire market. For example if you were going to calculate beta over the last year for compare technology stocks versus the S&P 500, you would first gather the historical data you need. Next, you have to determine the movements of the two prices after every trading day. So you will have a percentage change versus the previous day. Once we have 365 of these we can average the group to determine the average move each made over the last year. Call the average industry movement  $R_i$  and the average market movement as  $R_m$ . Finally, divide the technology industry's average movement by the S&P's average movement and we will have an outcome that is less than 1 (less volatile), 1 (equally volatile), or greater than 1 (more volatile). Written out this function looks like this:

$$R_i / R_m = \text{Covariance}(R_i, R_m) / R_m$$

Beta can be of great use in stock research when it comes to judging how risky a stock is versus a stable investment with a guaranteed rate of return. Also know that the longer the period of time beta is acquired, the more accurate beta will be. Beta is also very valuable when used in conjunction with stocks with long records of high volume trading. Beta for smaller stocks that don't trade a lot aren't very reliable because the small stocks can fluctuate wildly on a busy day.

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