# The High Price of High Volatility

In November 2012, with investors still nursing the wounds of 2008, we published *Understanding the Value of Low Volatility* and argued that the crowd piling into "low vol" and high-dividend products was paying up for safety at exactly the wrong moment. Over the following year Low Volatility underperformed by 650 to 800 basis points while High Volatility outperformed by 700 to 1,000. Fourteen years on, the trade has fully reversed: the fear that once drove investors into the quietest stocks in the market has been replaced by an appetite for its loudest.

The charts that follow compare the highest and lowest quintiles of 24-month volatility in our All-but-Micro universe, cap-weighted, from April 1989 through August 2026. The conclusion is not that High Volatility companies have become worse businesses. They have not; they have always lost money, burned cash and diluted their owners. The conclusion is that investors are now paying dot-com-era prices, and taking record systematic risk, to own that same profile, while Low Volatility offers better valuation and better fundamentals than either High Volatility or the S&P 500.

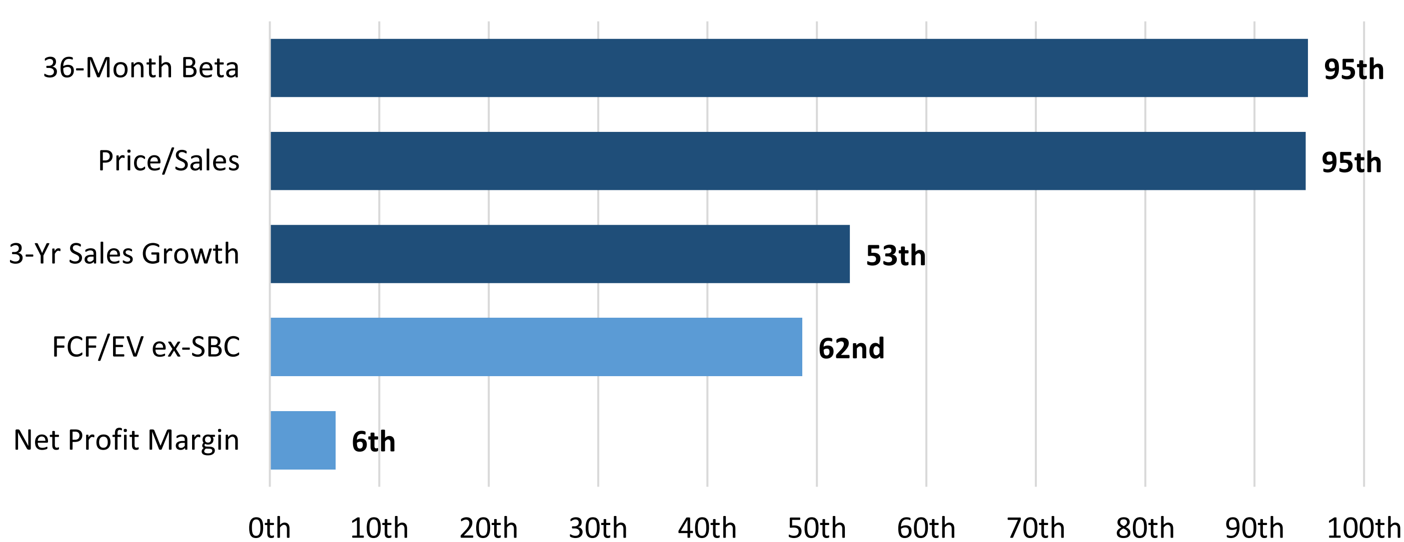
**Where High Volatility Stands Against Its Own History**

The chart below places each of High Volatility's current readings against the group's own history since 1989, expressed as the share of months in which the reading was lower. The pattern is unmistakable. What investors are paying and risking sits at the top of the range; what they are receiving in return sits in the middle.

- Valuation and risk are at or near historical extremes: 36-month beta is in the 95th percentile and Price/Sales the 95th.
- Beta has been higher only in 2001–2004; the two sales multiples have been higher only in 1999–2001 or within the past two years.
- Fundamentals are unremarkable: net profit margin sits at the 6th percentile of the group's history, FCF/EV at the 49th, and three-year sales growth at the 53rd.

**High Volatility has not become a better business. It has become a far more expensive and far more dangerous one.**

**High Volatility Today vs. Its Own History, 1989–2026 (Percentile of Current Reading)**




Source: Kailash Capital Research, LLC; Data from 4/30/1989 - 8/31/2026

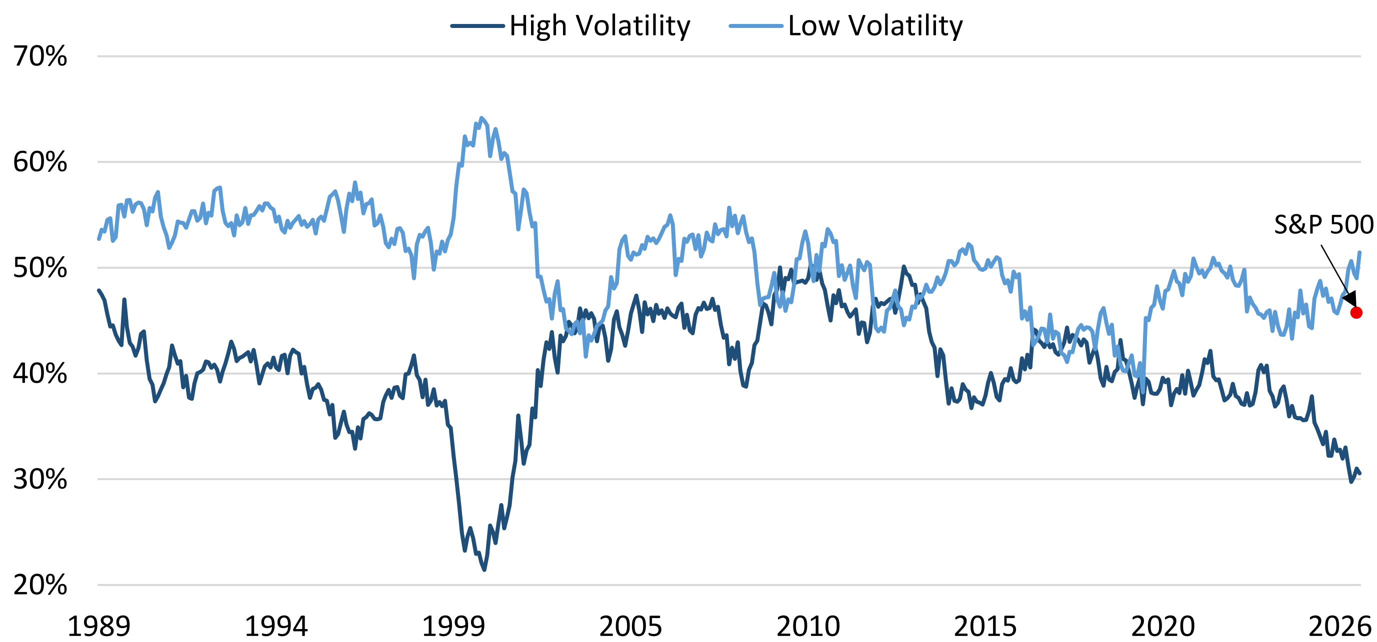
**What Our Model Thinks**

KCR's Aggregate Score combines valuation, balance sheet strength, earnings quality, analyst behavior and market quality into a single rank between 0% and 100%. The High Volatility cohort currently averages a 31st percentile agg score; Low Volatility averages 51st percentile. In the 449 months since April 1989, High Volatility has scored this poorly in only 24 of them, and all but the most recent three fell between November 1999 and July 2001.

- High Volatility has ranked below Low Volatility in 90% of all months, but the current 20 percentile point gap is among the widest on record.
- High Volatility's all-time low of 21% was set in September 2000, at the peak of the internet bubble.
- Low Volatility's 51% is identical to it's long-run median of 51%. Nothing about the group's quality has deteriorated; the spread has opened almost entirely from the High Volatility side.

**Our model has almost never disliked High Volatility more than it does today. The only precedent is the top of the internet bubble.**

**KCR Aggregate Score**



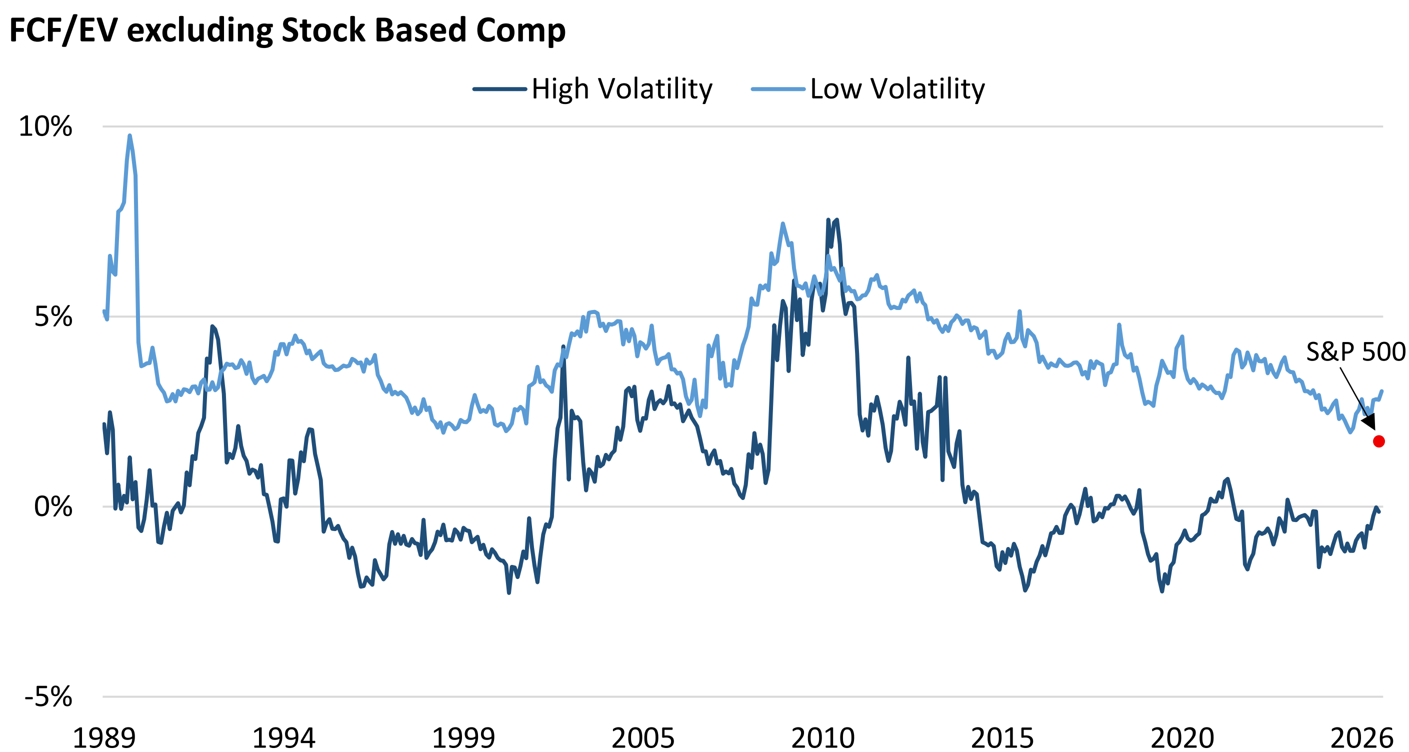

Source: Kailash Capital Research, LLC; Data from 4/30/1989 - 8/31/2026

**FCF/EV excluding Stock Based Comp**

After treating stock-based compensation as the expense it is, the High Volatility cohort generates a free cash flow yield of −0.1% on enterprise value. Low Volatility generates ~3%. Investors are paying record multiples for the most volatile companies that, in aggregate, produce no cash for their owners.

- High Volatility has posted a zero or negative cash flow yield in 48% of all months since 1989; its median reading is 0.1%. Today's −0.1% is not an anomaly. It is the group's normal condition.
- High Volatility's cash yield has exceeded Low Volatility's in only 13 of 449 months with nearly every one of those rare instances occurring in the depths of the Great Financial Crisis
- Low Volatility has never posted a negative month; its worst reading was 1.9% in March 1999, at the height of the last mania; today the group is 50% cheaper (3% FCF Yield is 50% cheaper than a 2% FCF Yield) than it was during the dot.com bubble

## High Volatility's cash yield is ordinary for the group, which is to say roughly nothing.



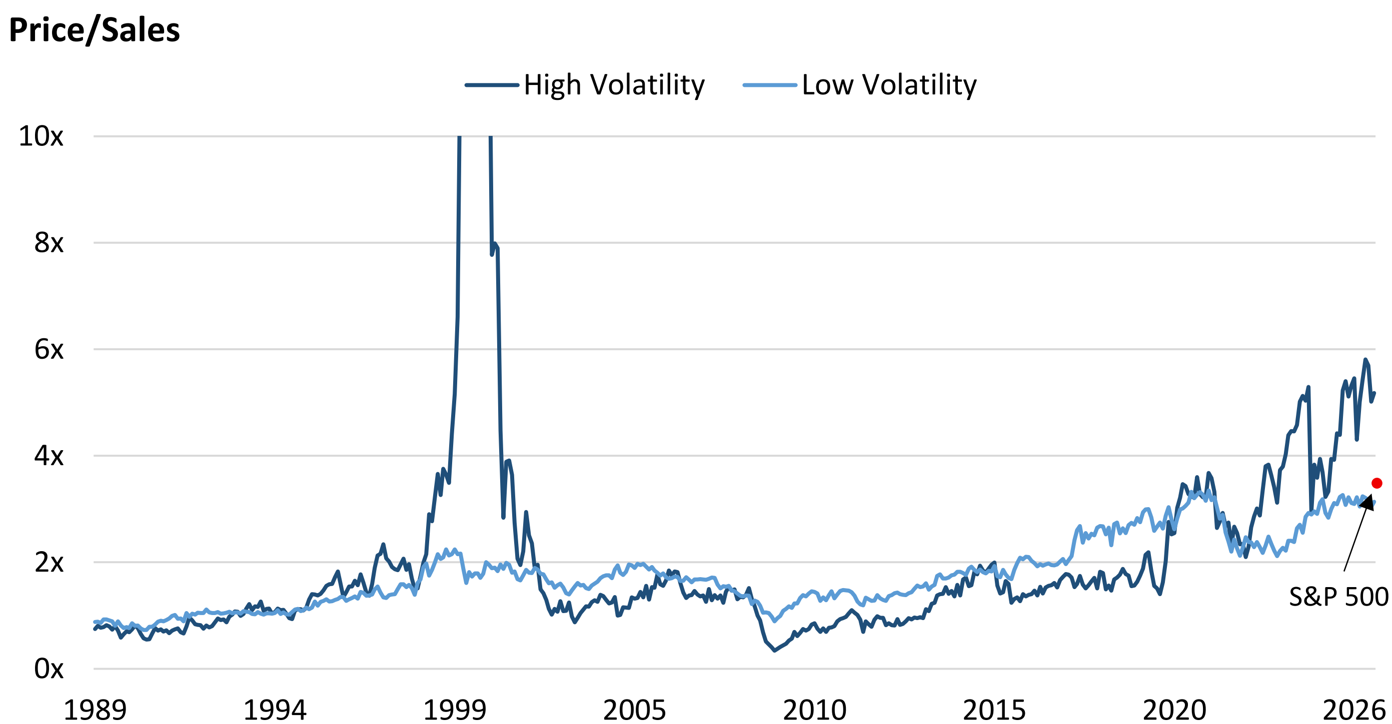

Source: Kailash Capital Research, LLC; Data from 4/30/1989 - 8/31/2026

**Price/Sales**

On Price/Sales the picture worse. High Volatility trades at 5.2x versus 3.1x for Low Volatility and 3.5x for the S&P 500. High Volatility's multiple is in the top 5% of its history and the 2.1x premium to Low Volatility has been wider in only 31 months, all in 1999–2001 or since late 2024.

- From 2010 through 2022 High Volatility traded at or below Low Volatility's Price/Sales in 84% of months.
- The reversal since 2023 has taken High Volatility from 2.3x at the end of 2022 to 5.2x today, a 125% re-rating in three and a half years.
- Low Volatility at 3.1x is cheaper than both the High Volatility group and the S&P500.

**The market has not paid this much per dollar of High Volatility sales since the internet bubble.**



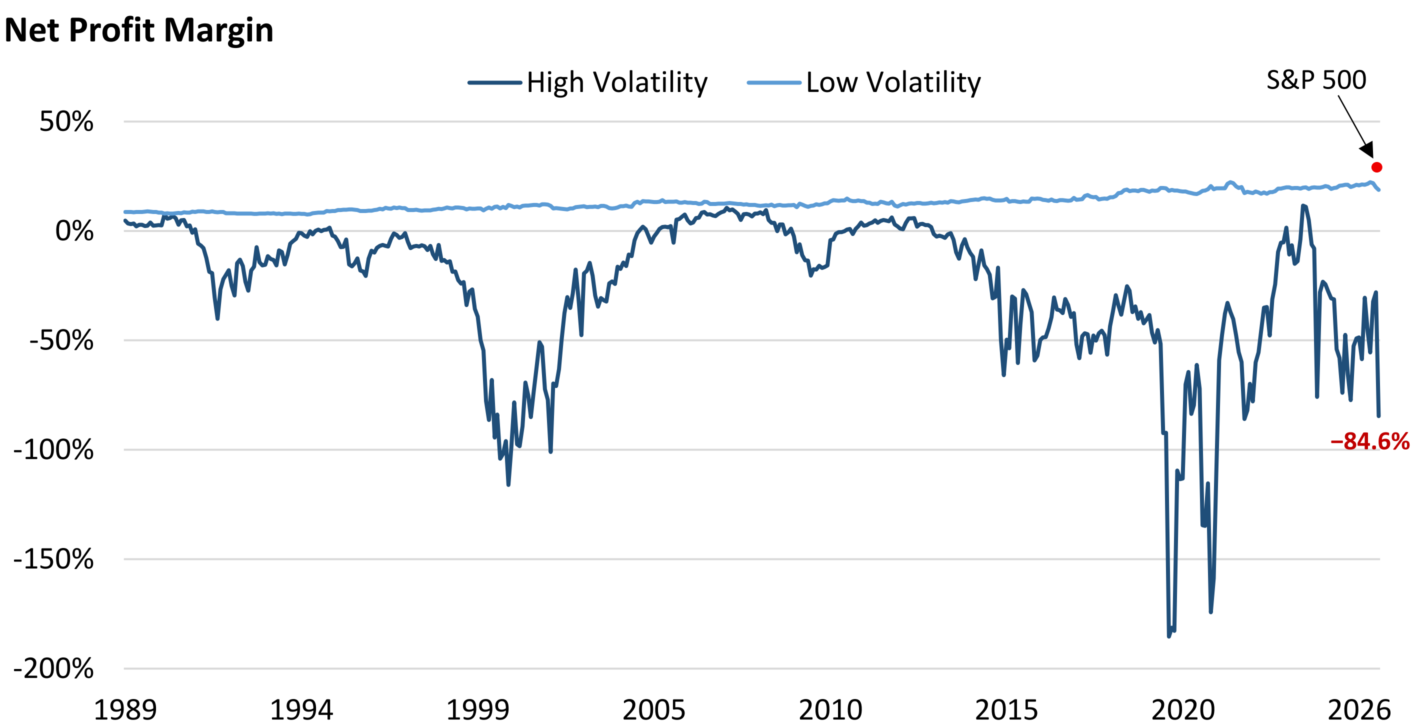

Source: Kailash Capital Research, LLC; Data from 4/30/1989 - 8/31/2026

## Net Profit Margin

High Volatility's net profit margin is **−84.6%**, against +18.8% for Low Volatility. High Volatility has lost money in 75% of all months since 1989 and its median margin is −15%. Losing money is the group's baseline condition, not a cyclical accident.[1]

- High Volatility last posted a positive margin in July 2024, shortly after setting its all-time high of 11.6% in May of that year. Its worst reading was −185% in May 2020.
- **Low Volatility has never recorded a month with negative margins. Its 18.8% margin today is in the top 12% of its history and well above its 12.4% median.**
- The **−85%** figure is cap-weighted and flattered by a handful of large, profitable names. **Equal-weighted, the High Volatility margin is −371%**: the typical company in the group loses roughly two dollars for every dollar of sales. We return to this below.

### The cohort commanding record multiples of sales has been unprofitable three-quarters of the time for thirty-seven years.




Source: Kailash Capital Research, LLC; Data from 4/30/1989 - 8/31/2026

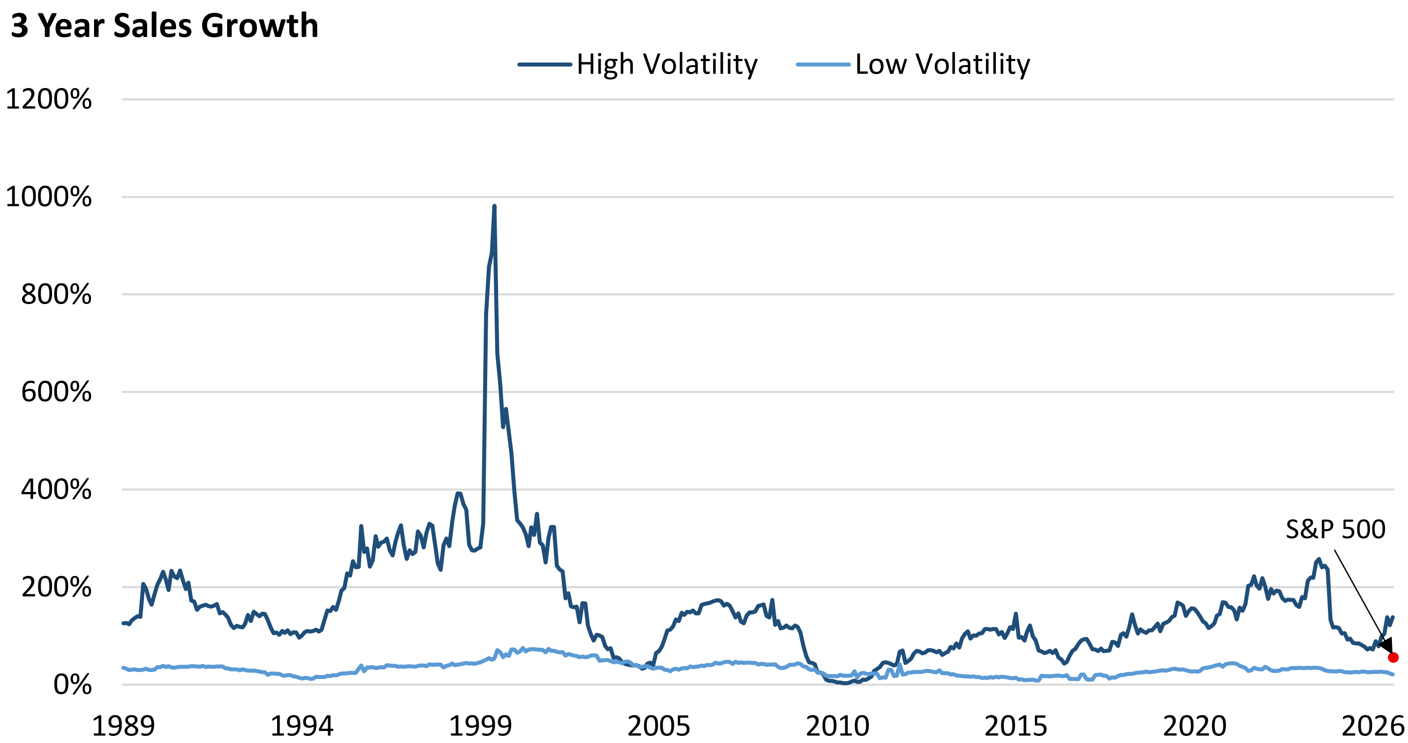
[1] All series in this piece are capitalization-weighted and winsorized. Cap-weighting is the more conservative choice, and the one most flattering to High Volatility: on an equal-weighted basis, as of 8/31/2026, the High Volatility cohort's net profit margin is −371%, its free cash flow yield ex-SBC is −3.6% and its shareholder yield is −6.1%. See "The Typical High Volatility Company" below.

### 3 Year Sales Growth

Cumulative three-year sales growth for High Volatility is 138%, or roughly 33% per year, versus 21% (about 6.5% per year) for Low Volatility and 62% for the S&P 500. This is the bull case for High Volatility and the sales growth is real yet there are no profits. It is also entirely ordinary. High Volatility's median three-year growth since 1989 is 130%, which puts today's reading at the 53rd percentile of the group's own history.

- High Volatility's growth peaked at 982% in March 2000, reached 180% as recently as December 2023 and fell to 75% at year-end 2025 before rebounding. Today's figure is unremarkable in that context.
- The 117-point growth spread over Low Volatility is only 18 points greater than the median spread since 1989. Nothing about the growth differential is unusual.
- **What is unusual is the price of that growth.** On average High Volatility stocks have a Price/Sales of 2.2x. Investors now pay a ~150% premium, or 5.2x sales, for historically average growth.

## Investors are paying a top-decile price for average growth.



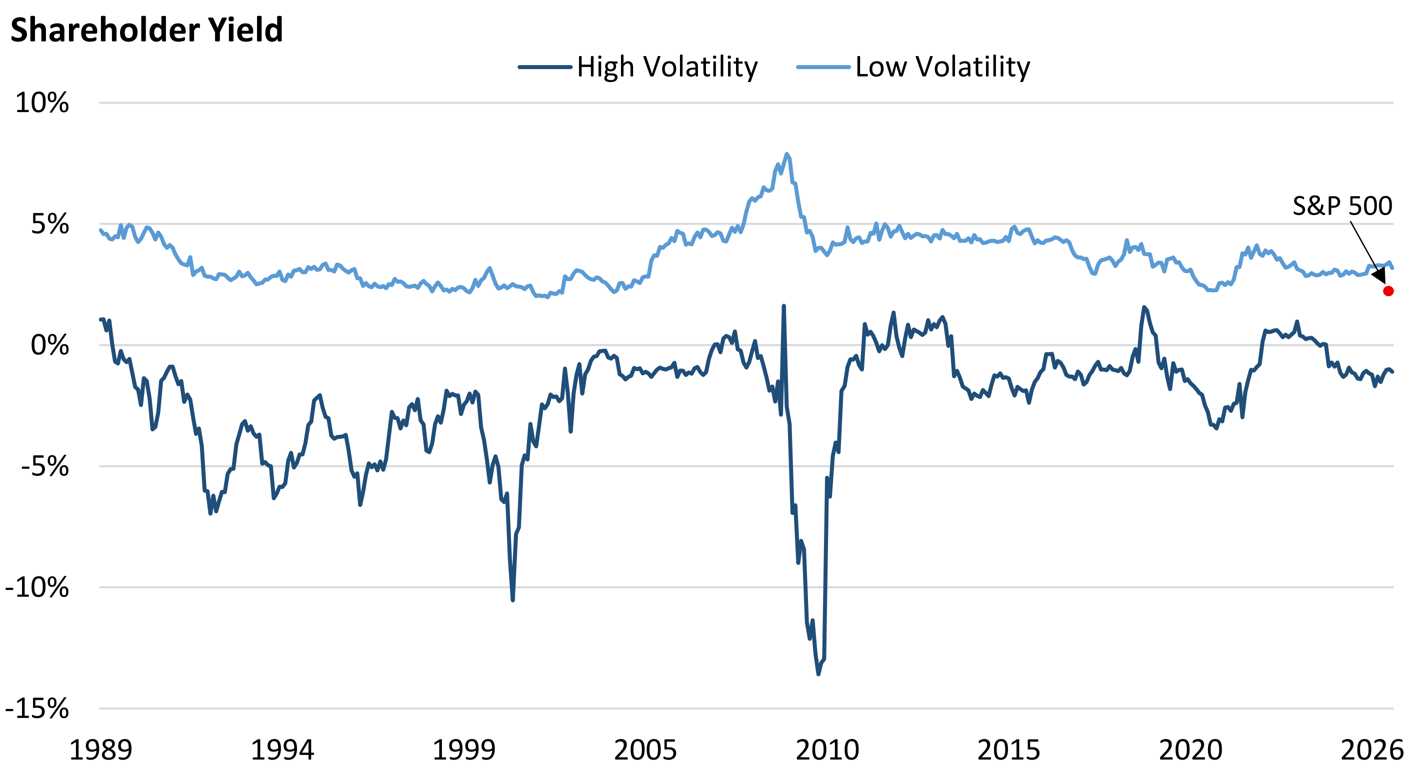

Source: Kailash Capital Research, LLC; Data from 4/30/1989 - 8/31/2026

**Total Yield to Investors**

Shareholder yield, which adds net buybacks to dividends, is −1.1% for High Volatility versus +3.2% for Low Volatility. A negative figure means the group issues more stock than it retires: High Volatility owners are diluted every year – you are paying to own those stocks. The group has posted a negative yield in 85% of all months since 1989. Low Volatility has always had a positive yield – they pay you to own them.

- High Volatility's worst readings were −10.5% in March 2001 and −13.6% in January 2010; its median is −1.4%. Today's −1.1% is typical of the group.
- Low Volatility's yield has ranged from 2.0% (March 2002) to 7.9% (February 2009). Today's 3.2% sits just below it's long-run median and 70 basis points above the index.
- **Equal-weighted, High Volatility's shareholder yield is −6.1%. The typical company in the group dilutes its owners by 6% a year.**

**Owners of High Volatility, loss making stocks are paying for the "privilege" of buying them at record multiples. In contrast, Low Volatility stocks pay investors 3.2% in cash, 50% more than the S&P500.**



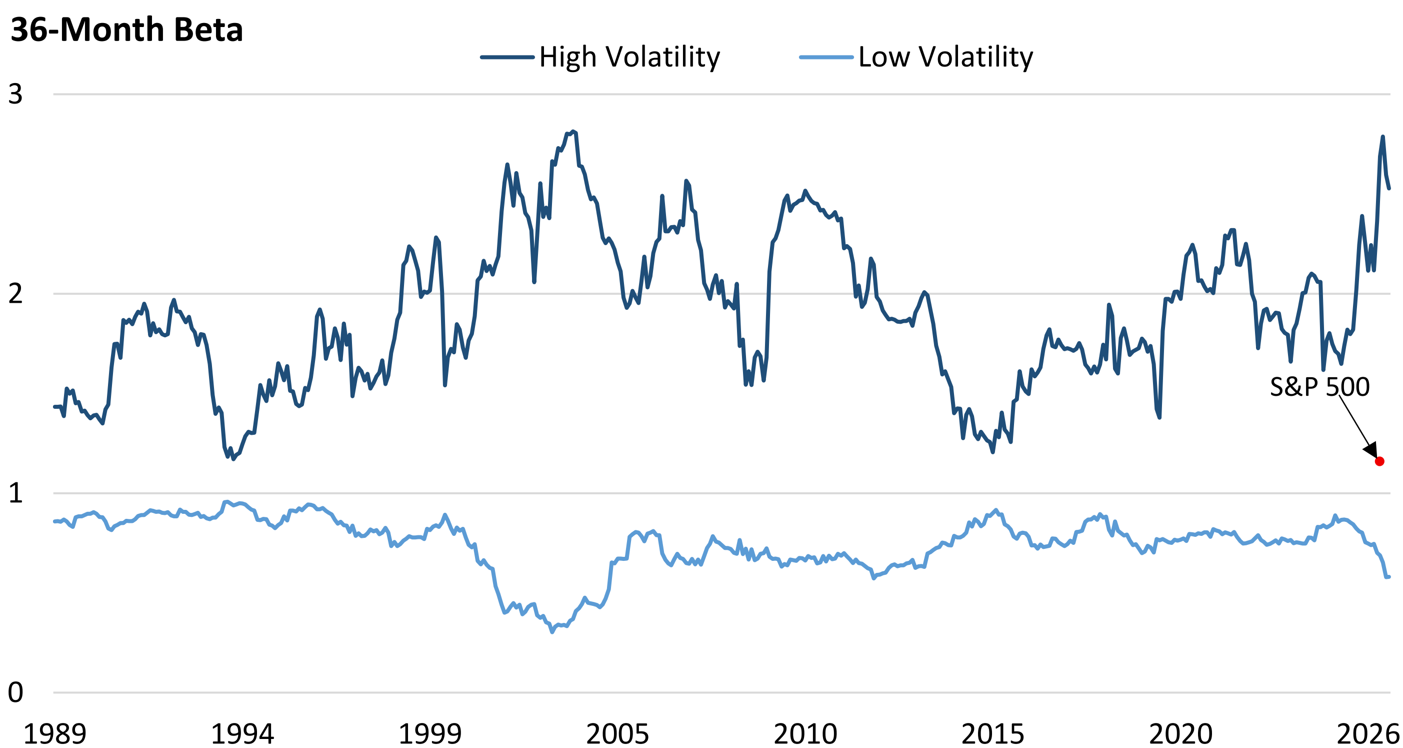
Source: Kailash Capital Research, LLC; Data from 4/30/1989 - 8/31/2026

**36-Month Beta**

High Volatility's 36-month beta is 2.53 versus 0.58 for Low Volatility. High Volatility's beta is in the top 5% of its history and has been exceeded in only 22 months, all between 2001 and 2004. Low Volatility's is in the bottom 9%. **The 195 basis point spread between them has been wider in just 33 of 449 months.**

- High Volatility's beta has risen from 1.66 in November 2023 to 2.53 today
- In contrast, Low Volatility's beta has fallen from 0.84 at year-end 2024 to 0.58. The two groups are moving in opposite directions.
- High Volatility peaked at 2.81 in October 2003, Low Volatility bottomed at 0.30 in March 2003, and the spread peaked at 2.47 in August 2003.

**The market's most expensive, least profitable cohort is also carrying more systematic risk than at any point since the dot-com bust, with four and a half times the beta of Low Volatility.**

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## Sentiment and Expectations

The fundamentals above describe what High Volatility companies are: over-priced, cash burning, dumpster fires with record levels of brutal price action. One would think, with characteristics like these, investors would be pessimistic on these High Volatility stocks. The three charts that follow describe what investors actually believe about them, and the gap between the two is where the risk lives.

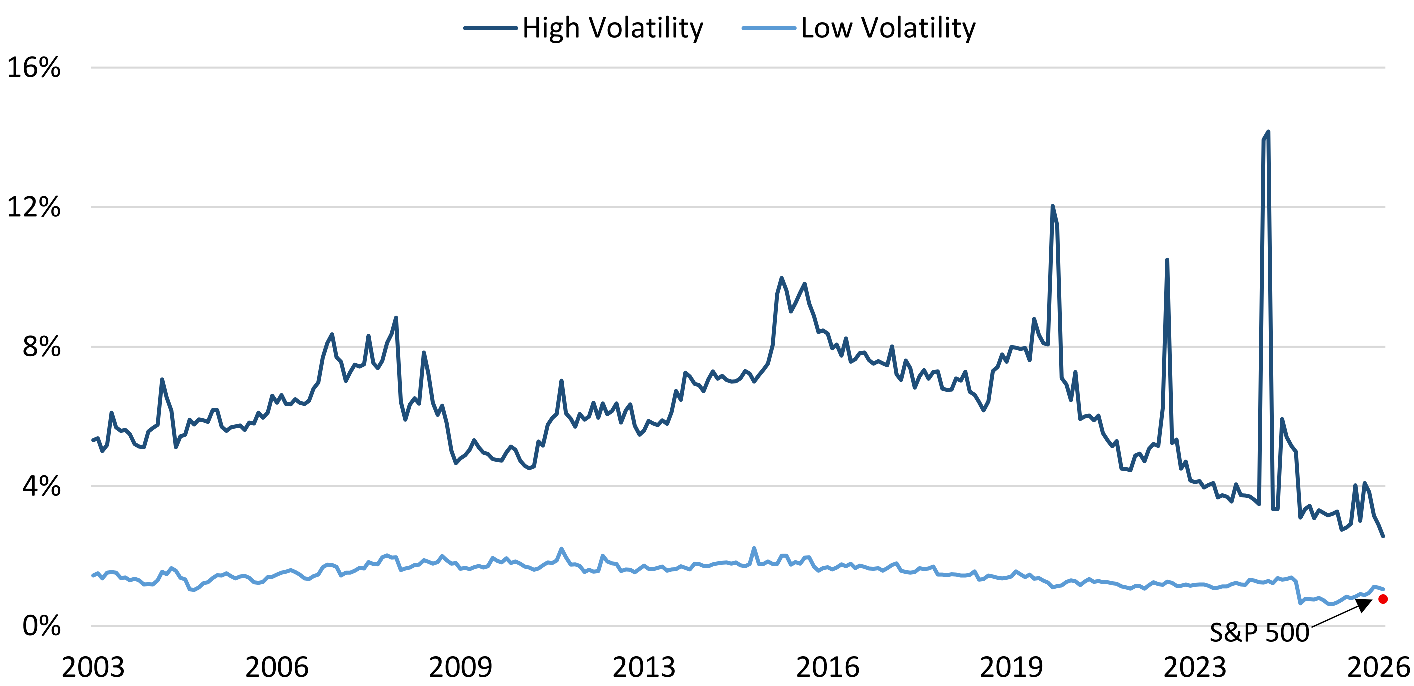
## Nobody Is Short

Short interest in the High Volatility cohort is 2.6% of shares outstanding. That is the lowest reading in the 23 years for which we have data, against a median of 6.1%. As recently as July 2024 it stood at 14.2%, the highest on record; in two years the short base has been cut by roughly 80% even as valuations climbed to their richest levels since 2000.

- Low Volatility short interest is 1.0%, below its 1.5% median. The S&P 500 is at 0.8%. Nobody is short anything, but the collapse in High Volatility is by far the most dramatic.
- The fear that drove investors into low volatility products in 2009–2014 has not merely faded. It has inverted.

**The companies that lose the most money and dilute the most are the ones almost nobody is willing to bet against.**

**Short Interest (% of Shares Outstanding)**



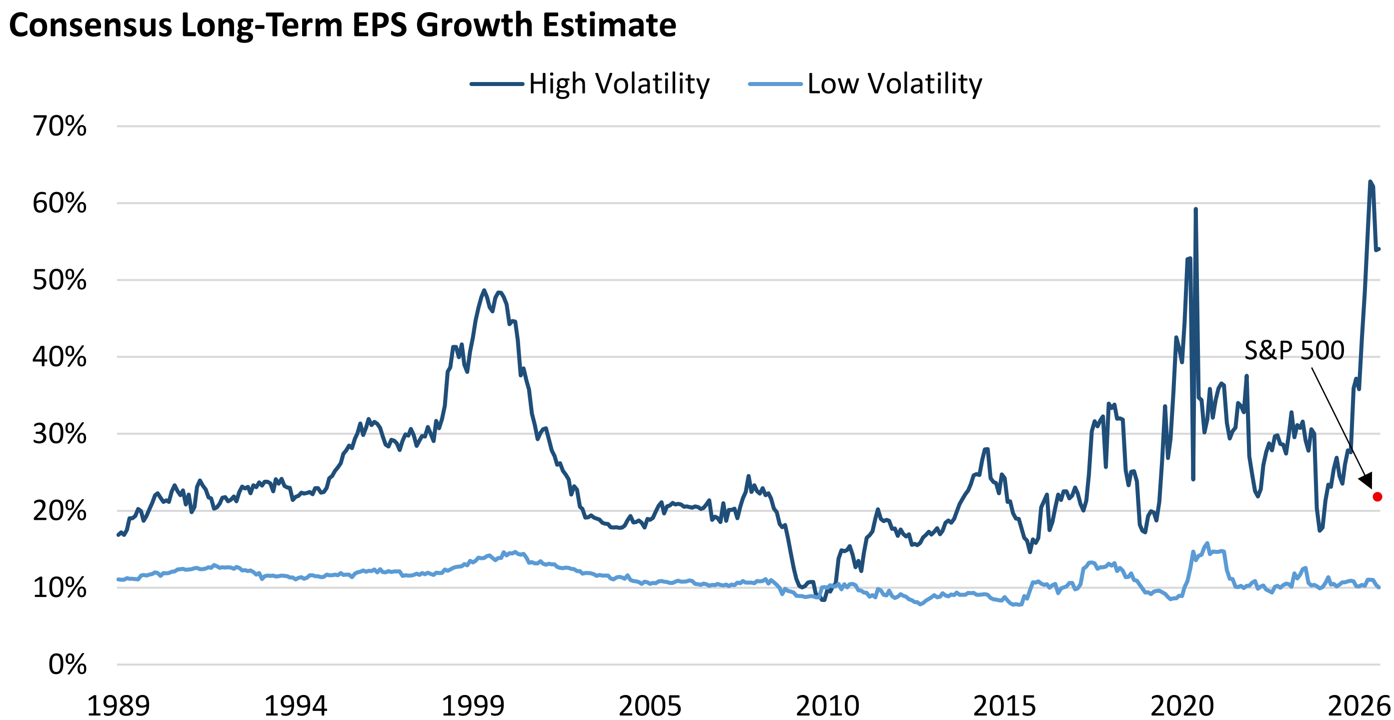

Source: Kailash Capital Research, LLC; Data from 4/30/1989 - 8/31/2026

### Expectations Above the Bubble

Consensus long-term EPS growth estimates for the High Volatility cohort stand at 54% per year. That is the 99th percentile of the group's history since 1989 and above the 48% analysts expected in March 2000. The all-time high of 63% was set in May of this year. In contrast, Low Volatility's estimate is 10.4%, in line with its 11.0% median.

- Analysts have expected High Volatility to grow earnings this fast in only six months in thirty-seven years
- These are the same companies whose cumulative sales growth sits at the 46th percentile of their own history and whose margins have been negative for three-quarters of that history.

**Analysts expect more from High Volatility than they did at the peak of the internet bubble, while the companies deliver median growth and no profits.**

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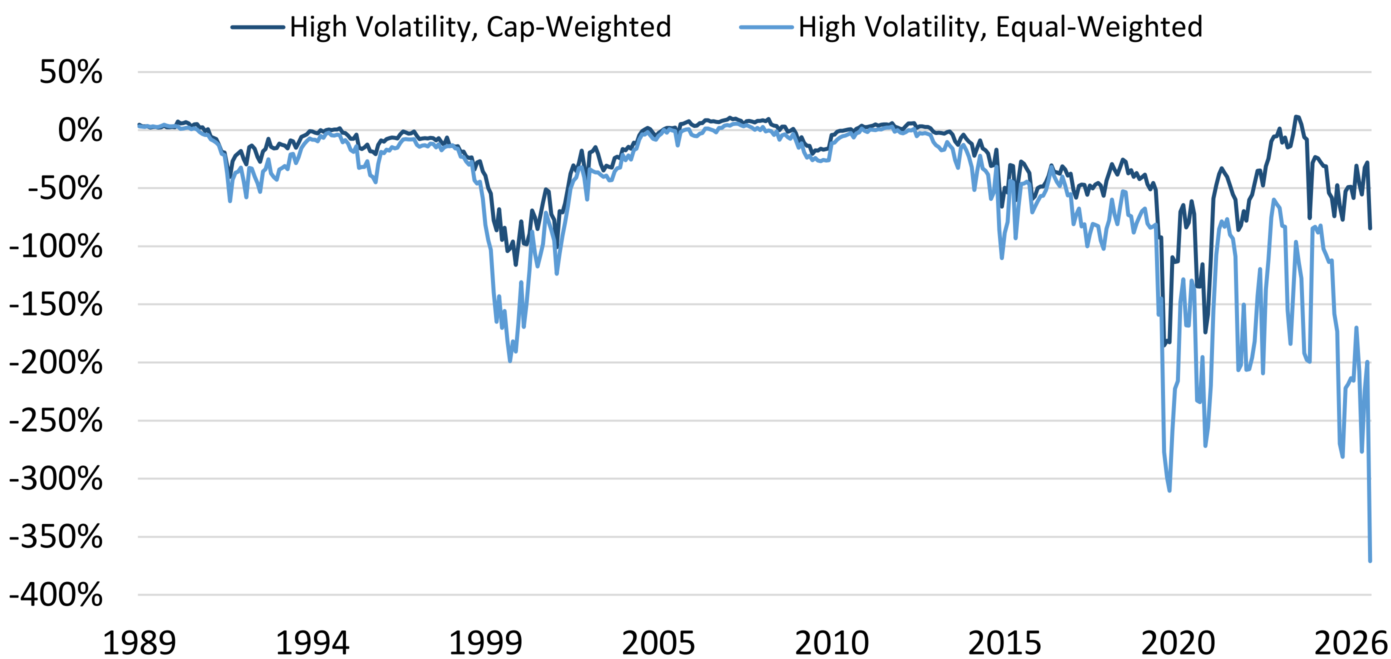
**The Typical High Volatility Company**

Every chart above is capitalization-weighted, which means a handful of large, profitable names carry the aggregate. The chart below plots High Volatility's net margin two ways. Cap-weighted, the group loses 84 cents per dollar of sales. Equal-weighted, it loses $3.71. The equal-weighted reading has been worse in only 26 months since 1989, or 6% of the time, against a median of −32%.

- The equal-weighted margin bottomed at −310% in July 2020 and was −143% at the peak of the internet bubble. Today's −371% is worse than March 2000.
- On the same basis the typical High Volatility company has a free cash flow yield of −3.6% and dilutes its owners by 6.1% a year.

**Strip out the few large winners and the typical High Volatility company is losing money at a rate that rivals the worst of the pandemic and exceeds the top of the internet bubble.**

**High Volatility Net Profit Margin: Cap-Weighted vs. Equal-Weighted**

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Note: Kailash Capital Research, LLC; Kailash All-but-Micro universe, top and bottom quintiles of 24-month standard deviation of returns, cap-weighted and winsorized.  S&P 500 figures ex-financials where noted.

**For a list of KCR's Top Ranked Low Volatility stocks and Bottom Ranked High Volatility stocks, please see below**

| Top Ranked Low Volatility Stocks | | | | | Bottom Ranked High Volatility Stocks | | | | |
|---|---|---|---|---|---|---|---|---|---|
| KCR Agg Score | Ticker | Company Name | Market Cap ($m) | FCF ex SBC/ EV | KCR Agg Score | Ticker | Company Name | Market Cap ($m) | FCF ex SBC/ EV |
| 99.9% | AXS | AXIS CAPITAL HOLDINGS LTD | 7,225 | 34% | 0.1% | SOUN | SOUNDHOUND AI INC | 3,120 | -7% |
| 99.8% | DAC | DANAOS CORPORATION | 2,758 | 7% | 0.1% | HYMC | HYCROFT MINING HOLDING CORP | 2,182 | -7% |
| 99.1% | QCRH | QCR HOLDINGS INC | 1,628 | 38% | 0.2% | BMNR | BITMINE IMMERSION TECH INC | 14,677 | -2% |
| 98.9% | CBSH | COMMERCE BANCSHARES INC | 8,319 | 15% | 0.2% | AAOI | APPLIED OPTOELECTRONICS INC | 9,088 | -7% |
| 98.6% | OFG | OFG BANCORP | 2,200 | 10% | 0.2% | ASST | STRIVE INC | 1,985 | -6% |
| 98.1% | BGC | BGC GROUP INC | 5,677 | 6% | 0.3% | SMR | NUSCALE POWER CORP | 3,804 | -29% |
| 98.0% | CCK | CROWN HOLDINGS INC | 12,659 | 6% | 0.4% | RCAT | RED CAT HOLDINGS INC | 1,312 | -17% |
| 97.9% | RDN | RADIAN GROUP INC | 4,789 | 27% | 0.4% | WGS | GENEDX HOLDINGS CORP | 2,528 | -4% |
| 97.2% | ACEL | ACCEL ENTERTAINMENT INC | 945 | 5% | 0.5% | PS | PERSHING SQUARE INC | 17,168 | 0% |
| 96.6% | TGT | TARGET CORP | 73,086 | 5% | 0.5% | SBET | SHARPLINK INC | 1,873 | -3% |

Source: Kailash Capital Research, LLC; Data from 8/31/2026

## Disclaimer