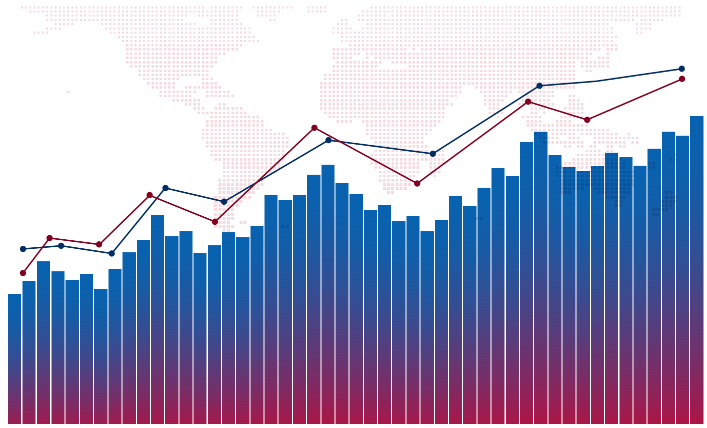
STRATEGIES FOR INVESTORS IN A VOLATILE MARKET

During volatile times, many investors get agitated and begin to question their fundamental investment decisions and choices. This is especially true for those investors who monitor their portfolios daily and can be tempted to pull out of the market and wait on the sidelines until it seems safe to dive back in.

The problem there is that you're forced to make two correct decisions in a row: when to exit the market and when to get back in.



What is Stock Market Volatility?

In the securities markets, volatility is often associated with big swings in either direction. For example, when the stock market rises and falls more than 1% over a sustained period of time, it is often called a "volatile" market.

One thing that can be helpful is to understand that equity market volatility is part of the investment experience and is therefore inevitable. Equity markets can always move up and down, especially over the short-term.

One solution is to always understand your personal situation. Try to plan for your equity investments to maintain a long-term horizon and ignore the short-term fluctuations. To help make your investment decisions less emotional and more focused, it is helpful to understand volatility. If the daily swings in the stock market seem too chaotic, remember these movements are near impossible to fully predict. For many investors there is no reason to even subject themselves to daily market headlines. If you have a long-term investment horizon for your equity holdings of at least five years, chances are the current volatility will pass - possibly in a couple of weeks, months or in at least a couple of years.

1. Keep Things in Perspective

Equity markets are never going to produce straight line returns for investors. Market pullbacks (defined typically as between 5 and 10%), corrections (defined as 10 to 20%) and even bear markets (defined as 20% or more) are a normal part of the stock market cycle. According to Guggenheim, between 1945 and 2019 the S&P 500 declined between 5% and 10% 78 different times. The average time it took to recover to its previous highs was only about one month.

For example, in 2017, the stock market had an unusual year in which it did not even deliver a correction of 5%. Meanwhile, 2018 brought investors the steepest correction in a decade during the fourth quarter and that year included a greater than 10% decline in the first quarter.

2. Volatility vs. Risk

Volatility and risk are not the same thing. When a stock is volatile, it means that it tends to make big moves (up or down). When a stock is risky, it means that it can lose money (go down). In financial terms, risk is the potential permanent loss of money whereas volatility is how rapidly an investment tends to change in price. Volatility does not just imply risk of loss. Volatility simply refers to the price action. Some investments may be more volatile than others.

Equity investments, as a category, are much more volatile than a bank deposit, but that does not mean an investor should avoid investments in equities. Just because an investment is more "volatile" does not necessarily mean it is "riskier" in the long term. Investors should always discuss with their financial advisors the potential of short-term volatility affecting the daily value of their investments and plan their investments accordingly.

3. Beware of Media Magnification

One of the biggest challenges investors face is tuning out the magnification of financial issues by the media. With thousands of media outlets all thirsty for viewers, some resort to scare and fear tactics to attract an audience. Know that volatility is a part of the investment experience, however, it can still become difficult to make rational investment decisions when the markets are fluctuating. During these times, it is prudent to resist the temptation of watching news reports and obsessively watching your portfolio performance. Adhering to a long-term investment plan often requires taking the news with a grain of salt and putting spur-of-the-moment advice of others on the back burner.

Too often emotion, not logic, can overshadow investing habits, so the first step in declaring this mental independence is realizing how these influences, known as biases, affect us. Sometimes, the closer you put a short-term lens to your investments, the more likely you consider decisions that deviate from your long-term strategy.

So what should an investor do in a volatile market?

In times of crisis, many people tend to overreact and sometimes do not make the best decisions. During volatile markets, it might be best to revisit your plan. Remember, panic is not a plan. When equity markets experience unnerving fluctuations, we suggest you ask yourself three questions:

1. **Have my financial timelines changed?**
2. **Have my financial goals changed?**
3. **Has my risk tolerance changed?**

If you answered "YES" to any of these questions, then it is wise to discuss these changes with us. An investor needs to be prepared to build a plan that includes risk awareness. One of our primary responsibilities as your financial advisor is to consistently keep in touch with you and monitor your situation. If you have concerns, some questions to ask us include:

- **Can we review my financial plan?**
- **Can we revisit my risk tolerance?**
- **Are my investments diversified?**
- **What are my fixed income investments?**
- **Has the volatility presented any good opportunities?**

At the end of the day, investors should always put their primary focus on their own personal goals and objectives. If anything has changed for you, please let us know.

Sources: The Motley Fool 5/2019, Macrotrends.com., U.S. News and money Report.