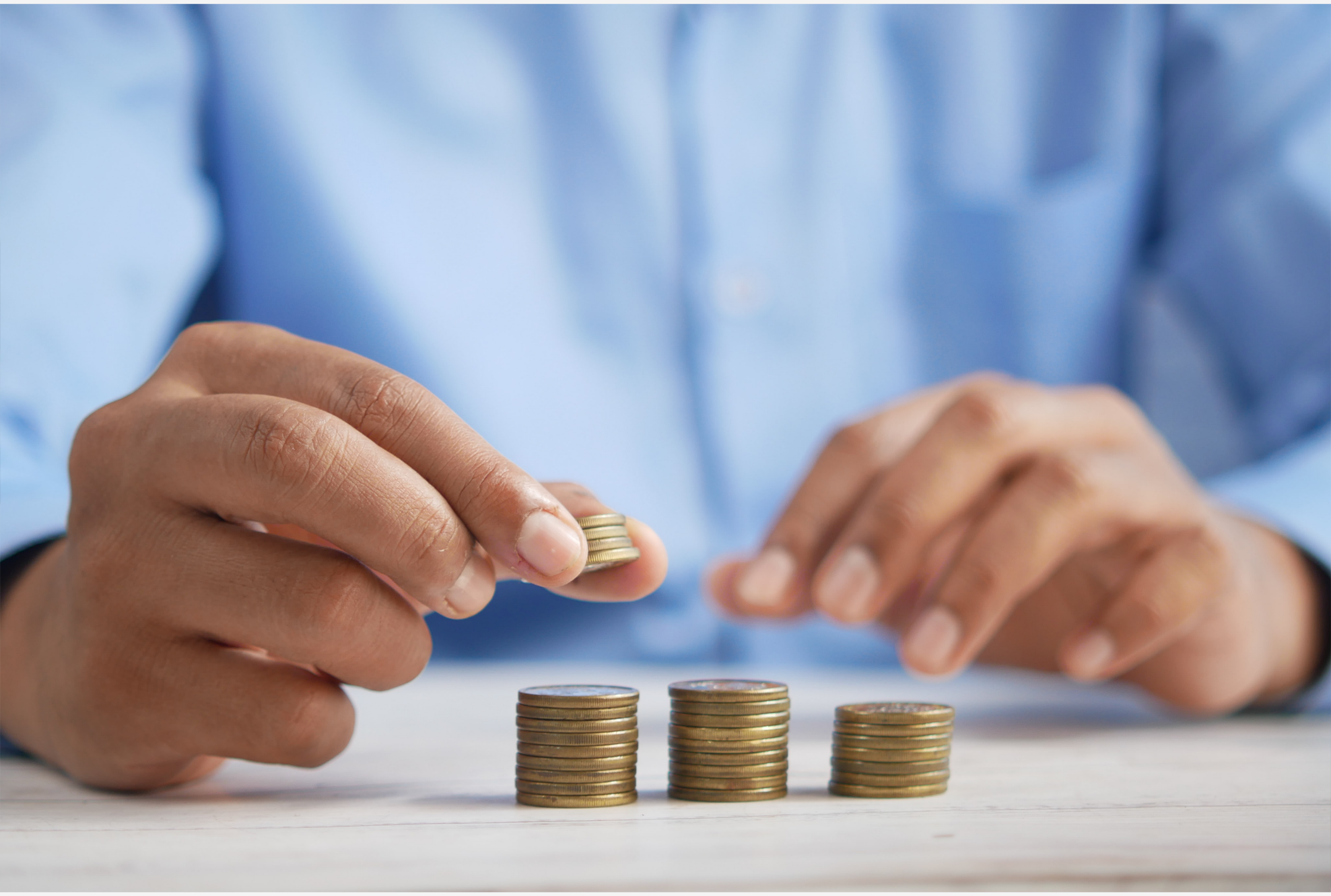
Investing in a volatile market with rising interest rates



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Americans of all walks of life have been on edge recently with the current inflationary environment, rising interest rates, shifting market conditions, and geopolitical tensions all contributing to these uncertain times.

It can be said that this is the start of a divergence in the economy when you consider many factors are on different trajectories.
At the same time, the impact of inflation is felt differently across many different sectors and regions. In an effort to curb rising inflation, the Federal Reserve has started to increase interest rates – impacting the interest that ordinary Americans pay on things like credit cards and a home equity line of credit.

Read on as we delve into some details.

What do rising interest rates mean for investors?

For Americans across the country, higher interest rates are directly correlated to higher prices for both businesses and consumers – impacting economic growth.

Higher interest rates in the country make it more expensive for Americans to borrow money, and amid such a tense financial backdrop, this may hinder some savings, borrowing or investment opportunities.

In addition, one cannot ignore the effect of geopolitical volatility as currency exchange rates have experienced significant swings – pushing investors towards “safe-haven” currencies.

Although the absolute-return backdrop may appear daunting, investors could find themselves with an increasing number of other opportunities. The crucial component here is agility in this existing environment.

What are some things investors should consider

With the current economic climate, investors must carefully consider their options and then try to structure their investments portfolio accordingly. Essentially, identifying market signals and being ready to respond, if an opportunity arises, is – easier said than done!

From what I hear from my clients, at the forefront of most Americans' minds are inflation, energy prices, and geopolitical conflict – elements that are connected and influenced by each other. With global inflation already heightened and the conflict in eastern Europe leading to disruptions in the supply chain and soaring energy prices – the Federal Reserve has acted by raising interest rates.

Now, more than ever, I feel that investors should focus on the long term as any sudden changes during these volatile times can set investors back for years. For those who need money in the short term, it may be prudent to reconsider different or alternative allocations.

Dollar-cost averaging

In these uncertain financial times, investors can consider dollar cost averaging – a strategy that may help to reduce the amount they pay for investments and minimize risk. While a one time investment would entail buying shares at a single price point, with dollar cost averaging – investors buy smaller amounts of shares at regular intervals, irrespective of the price.

When looking at the long-term prospects of dollar cost averaging, this strategy can definitely help to reduce investment costs and bump up investors' return potential – something that may make sense in the current economic climate. Please keep in mind that dollar cost averaging does not guarantee a profit or protect against losses in a declining market. Investors should consider their ability to continue purchases through periods of low price levels.

Time horizon

A time horizon is essentially a timeline of your investments or the time period that you wish to hold on to an asset before you may sell it. It also refers to your timeframe for achieving a financial goal – like your retirement. Some financial goals can be achieved much quicker than others, and investors have a wide range of short- and long-term investment options at their disposal – meaning their investment's time horizon can vary.

Time horizons are a critical component of investments as they inform investors of how they need to be saving or investing to achieve their financial goals. With long-term time horizons, investors tend to be more aggressive with high-risk, high-reward investments – knowing they have more time to recover if their investments downturn.

On the other hand, short-term time horizons attract more conservative strategies from investors who tend to look for stability with low-risk instruments – considering there is very little time to recover from losses in a volatile market.

Final thoughts

While many investors may be apprehensive in this current inflationary environment, there is always a silver lining around these dark financial clouds. At 4 Point Financial, we will help provide valuable insight and guidance about repositioning your investment portfolio to help address rising interest rates and shifting inflation expectations.

I will help design customized solutions tailored to your unique investment objectives and risk tolerance levels – exploring dollar cost averaging and plotting your time horizon. Make sure to get in touch and experience the 4-Point Financial difference while ensuring that your investment portfolio gets the attention that it deserves.

Dollar-cost averaging (DCA) is an investment strategy in which an investor divides up the total amount to be invested across periodic purchases of a target asset in an effort to reduce the impact of volatility on the overall purchase. Dollar cost averaging does not guarantee a profit or protect against losses in a declining market. Investors should consider their ability to continue purchases through periods of low price levels.