

PLANNING ESSENTIALS

Navigating Market Volatility

5 strategies to help investors stay on track



When markets start to fluctuate, many investors begin to question their portfolios. While market volatility can feel uncomfortable, it's important to remember that it's a natural part of the investment cycle. Research consistently shows that pulling money out of a seemingly turbulent market often means missing out on the inevitable recovery. Although staying the course can feel challenging, the best action during volatility is likely inaction.

Consider these five strategies to help manage emotions and stay on track throughout your financial journey.

KEY TAKEAWAYS:

Short-term market swings are normal. Staying focused on your long-term financial objectives can help prevent emotional decisions that may disrupt your progress.

A well-diversified portfolio and a healthy cash reserve can help cushion the impact of volatility, reduce the need to sell during downturns, and allow you to capitalize on future opportunities.

Trying to time the market often leads to missed gains. Instead, use market volatility as a chance to reassess your plan and work with your advisor to stay aligned with your goals.

1. STAY FOCUSED ON LONG-TERM GOALS

Market fluctuations are an expected part of investing not anomalies to be feared. When headlines trigger concern, take a step back and think about your investment timeline. Are you investing for a retirement that's decades away? For education expenses in ten years? Your time horizon provides an important perspective when markets become choppy.

Historical data reinforces this approach. While some downturns have indeed been severe, they seldom last longer than a year. Since the beginning of the stock market, there have only been four times that the Standard & Poor's 500® Index was negative two or more years in a row. Looking at these historic prolonged downturns like the Great Depression, World War II, the Oil Crisis, and the Tech Bubble, we can see that extended bear markets were not typical and tended to be followed by periods of growth.[1]

Rather than reacting to daily market noise, focus on the financial milestones you're working toward. This long-term perspective can help you avoid making short-term emotional decisions that may undermine your progress.

2. DIVERSIFY TO MANAGE RISK

A well-balanced portfolio distributed across various asset classes, sectors and geographies can significantly cushion the impact of volatility. When some investments are underperforming, others may be stable or even gaining, which creates a more resilient overall portfolio.

Concentrated positions in individual stocks or sectors can expose your investments to unnecessary risk. Even companies that seem unshakable can experience significant downturns. Proper diversification spreads risk and can help your portfolio weather market turbulence while positioning it for long-term growth. However, it does not eliminate the risks associated with investing.

Your diversification strategy should evolve with your life stage, goals, and changing market conditions. Regular portfolio reviews with your financial advisor can ensure your diversification remains appropriate for your situation.

3. KEEP CASH ON HAND

Maintaining an adequate cash reserve gives you valuable flexibility during market downturns. This liquidity serves two important purposes: covering expenses without selling investments at inopportune times and providing capital to take advantage of buying opportunities when quality assets are temporarily undervalued.

Financial experts typically recommend keeping three to six months of essential expenses in an easily accessible emergency fund. This financial "safety net" not only provides practical protection during unexpected personal circumstances but also gives you peace of mind during periods of market unpredictability.

With adequate cash reserves, you're less likely to make hasty decisions about your long-term investments based on short-term needs.

4. AVOID EMOTIONAL TRADING

Financial markets have always been influenced by human psychology. Fear and greed can drive decision-making that often works against investors' best interests. Reacting to headlines or attempting to time market movements frequently leads to buying high and selling low, which is exactly the opposite of successful investing.

The cost of attempting to time the market can be substantial. Research shows that missing just 10 of the best days in the market during the past 20 years resulted in a significant difference in return on a hypothetical $10,000 investment of 10.35% (for those who stayed invested) versus 6.14% (for those who cashed out). For investors who missed 50 of the best days, the return decreased well into negative territory at -2.23%.[2]

Recency bias, which is giving too much weight to recent events while discounting longer-term patterns can be particularly dangerous during volatile periods. Taking a step back to examine historical market trends often reveals that temporary declines are normal and have consistently been followed by recoveries.

Establishing a thoughtful investment plan in advance and committing to stick with it, especially when markets become turbulent, can help you avoid costly emotional reactions.



5. REVIEW, DON'T REACT

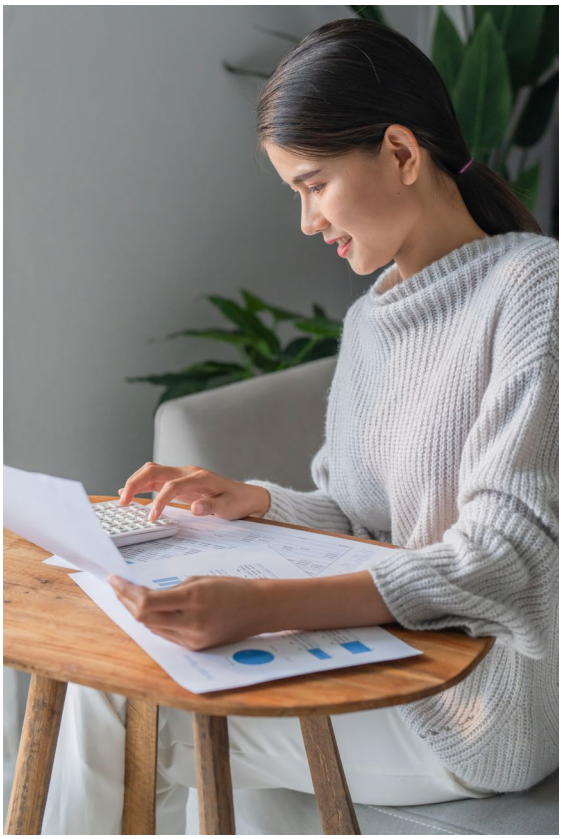
Rather than anxiously watching market fluctuations, use periods of volatility as an opportunity to thoughtfully reassess your overall financial picture. This might include evaluating whether your current risk tolerance still matches your portfolio allocation or determining if your investment timeline has changed.

Periodic portfolio rebalancing that return your investments to their target allocations can actually benefit from market volatility. When certain assets have declined in value while others have gained, rebalancing naturally implements the investor's mantra of "buy low, sell high" in a disciplined, unemotional way.

Embracing goals-based financial planning provides both direction and perspective that can help you maintain focus during volatile markets. A clear understanding of what you're investing for, rather than just focusing on returns, creates resilience when markets become turbulent.

Despite best intentions, making completely objective financial decisions without emotional influence is challenging for most investors. This is where your trusted advisor can add value by offering objective advice and guidance tailored to your specific goals and circumstances while helping you avoid common behavioral pitfalls.

By implementing these five strategies and working with your knowledgeable advisor, you can navigate market volatility with greater confidence and stay on course toward your long-term financial objectives.



[1] *Source: Morningstar, 12/31/23.This information is for illustrative purposes only and not indicative of any investment. The Standard & Poor's 500® Index is an unmanaged index considered to be representative of the U.S. stock market in general. Prices of common stocks will fluctuate and may involve loss of principal when redeemed. The National Bureau of Economic Research was used for the recessionary period information. An investor cannot invest directly in an index. Past performance is no guarantee of future results.*

[2] *Morningstar 2023 and Precision Information, dba Financial Fitness Group 2023.*



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