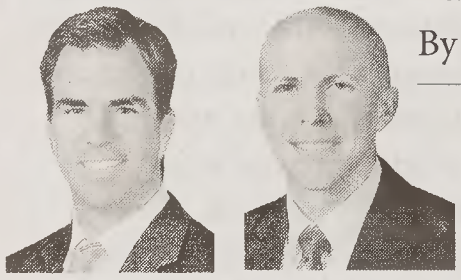
Coping with Market Volatility



By Greg Patterson and James Allen Canady

Recently we have seen news of the coronavirus dominate the headlines and cause turmoil in the markets. Keeping your cool can be hard to do when the market goes on one of its periodic roller-coaster rides. It is useful to have strategies in place that prepare you both financially and psychologically to handle market volatility. Here are some ways to help keep yourself from making hasty decisions that could have a long-term impact on your ability to achieve your financial goals.

- **Have a game plan.** Having predetermined guidelines that recognize the potential for turbulent times can help prevent emotion from dictating your decisions. You also can use diversification to try to offset the risks of certain holdings with those of others. Diversification may not ensure a profit or guarantee against a loss, but it can help you understand and balance your risk in advance.
- **Know what you own and why you own it.** When the market goes off the tracks, knowing why you originally made a specific investment can help you evaluate whether your reasons still hold, regardless of what the overall market is doing. Understanding how a specific holding fits in your portfolio also can help you consider whether a lower price might actually represent a buying opportunity.
- **Remember that everything is relative.** Most of the variance in the returns of different portfolios can generally be attributed to their asset allocations. A well-allocated, diversified portfolio is no guarantee that you won't suffer losses, of course, but diversification means that just because the S&P 500 might have dropped 10% or 20% does not necessarily mean your overall portfolio is down by the same amount.
- **Tell yourself that this too shall pass.** The financial markets are historically cyclical. Even if you wish you had sold at what turned out to be a market peak, or regret having sat out a buying opportunity, you may well get another chance at some point. It is normal to feel like the markets will rise forever during bullish periods or drop until they are worthless once things take a negative turn. Although we can't predict when the coronavirus threat will end, you may find comfort in knowing that we have experienced similar market movements, from similar threats, in the not-too-distant past: In 2015-2016, the zika virus sent markets down 12.9 percent. The SARS virus, in 2003, resulted in a 12.8 percent decline for the S&P 500. We have seen this before—and we have made it through to the other side.
- **Be willing to learn from your mistakes.** Anyone can look good during bull markets; smart investors are produced by the inevitable rough patches. Even the best investors aren't right all the time. If an earlier choice now seems rash, sometimes the best strategy is to take a tax loss, learn from the experience, and apply the lesson to future decisions. Experts can help prepare you and your portfolio to both weather and take advantage of the market's ups and downs.
- **Consider playing defense.** During volatile periods in the stock market, many investors reexamine their allocation to such defensive sectors as consumer staples or utilities (though like all stocks, those sectors involve their own risks, and are not necessarily immune from overall market movements). Dividends also can help cushion the impact of price swings. According to Standard & Poor's, dividend income has represented roughly one-third of the monthly total return on the S&P 500 since 1926, ranging from a high of 53% during the 1940s to a low of 14% in the 1990s, when investors focused on growth.
- **Stay on course by continuing to save.** Even if the value of your holdings fluctuates, regularly adding to an account designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part by new savings, your bottom-line number might not be quite so discouraging. If you are using dollar-cost averaging—investing a specific amount regularly regardless of fluctuating price levels—you may be getting a bargain by buying when prices are down.
- **Use cash to help manage your mind-set.** Cash can be the financial equivalent of taking deep breaths to relax. It can enhance your ability to make thoughtful decisions instead of impulsive ones. If you have established an appropriate asset allocation, you should have resources on hand to prevent having to sell investments to meet ordinary expenses. Having a cash cushion coupled with a disciplined investing strategy can change your perspective on market volatility.
- **Remember your road map.** Solid asset allocation is the basis of sound investing. One of the reasons a diversified portfolio is so important is that strong performance of some investments may help offset poor performance by others. Even with an appropriate asset allocation, some parts of a portfolio may struggle at any given time. Make sure your asset allocation is appropriate before making drastic changes.
- **Look in the rear-view mirror.** If you are investing long term, sometimes it helps to take a look back and see how far you have come. If your portfolio is down this year, it can be easy to forget any progress you may already have made over the years. Though past performance is no guarantee of future returns, the stock market's long-term direction has historically been up. With investing, it is important to remember that having an investing strategy is only half the battle; the other half is being able to stick to it. If patience has helped you build a nest egg, it just might be useful now, too.

In addition to the above, remember that the job of financial advisors is to advise, to keep you on track, to help you make progress with your financial goals, and to make sure you have an updated financial plan for long-term success. In times of market volatility and uncertainty, never hesitate to reach out to a financial professional.

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