Market Volatility: Be Ready for It

Asset bubbles. Debt crises. Political uncertainty. International conflicts. Currency swings. Economic woes — not only in the United States, but also abroad. These are just a few of the challenges — and potential opportunities — that have spurred volatility in the financial markets over the past few years.

When it comes to bad news that affects the financial markets, it's often a case of when and not if it happens. Expecting price swings and preparing for them may be the best defense when troubling events roil the markets. What does it take to be prepared?

You may already be familiar with diversification, asset allocation, and dollar-cost averaging. Though they may seem like fundamental concepts, their value comes in helping to reduce the role of human psychology in investment decisions.

**KEEP EMOTIONS IN CHECK**

When investors face the prospect of losses, they may be afraid to continue investing or be tempted to pull out of stocks altogether. But when you make an important purchase, do you purposely wait for the price to increase before you buy? Of course not, yet this is how investors may react over and over: buy when prices are rising and sell as prices fall. Another problem with this reactive behavior is that fleeing the market during a downturn increases the possibility that you will not participate in a market rebound.

**OPPORTUNITY KNOCKING**

Diversification involves spreading money among multiple investments so that gains in one area can help compensate for losses in another. Asset allocation uses sophisticated statistical analyses to determine the most efficient mix of asset classes — stocks, bonds, and cash — based...
on your investment goals, risk tolerance, and time horizon.

Dollar-cost averaging is a long-term investing strategy that entails buying a fixed dollar amount of particular investments on a regular basis, regardless of fluctuating prices. When prices are higher, your investment dollars buy fewer shares; but when prices are lower, the same dollar amount will buy more shares. This may result in a lower average price per share over time, assuming you continue to invest through all types of market conditions.

Dollar-cost averaging can be an effective way to steadily accumulate shares to help meet long-term goals, but you should consider whether you have the financial resources and discipline to continue making purchases during periods of low and high price levels.

Diversification, asset allocation, and dollar-cost averaging are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

REMEMBER HISTORY

Historically, stocks have had a strong performance record over long periods of time. The S&P 500 Index provided a 9.85% average annual return over the past 20 years.¹ Of course, past performance is no guarantee of future results. The value of stocks fluctuates with market conditions. Shares, when sold, may be worth more or less than their original cost. Most investors will never forget when the Great Recession and financial crisis caused stocks to fall precipitously — more than 50% — between October 2007 and March 2009. Though it may have taken some courage, refraining from selling could have paid off. U.S. stocks recovered much of their losses in the last three quarters of 2009 and reached new highs in March 2013. The S&P 500 Index continued its climb, posting a gain of 215% between March 9, 2009, and May 21, 2015.² (See graph.)

Global events could continue to create an uncertain investing environment in the coming months and years, with the potential for both sudden drops and strong rallies. Is your portfolio positioned to weather the inevitable trials that the future holds?

Focusing too much on short-term gains or losses is generally unwise. Abandoning a sound investment strategy in the heat of the moment could be detrimental to the long-term performance of your portfolio.

¹) Thomson Reuters, 2015, S&P 500 Composite Total Return Index for the period 12/31/1994 to 12/31/2014

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