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Weathering Volatile Markets

401(K) PLANS, BENEFITS, DUE DILIGENCE
BY MILES GIBSON

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Over the past few months, investors have had to deal with increased market volatility, a trend that could well persist for some time to come. As concerns continue to rise, the financial media will point to a number of possible contributing factors, including expected increases in inflation, the possibility of a trade war or that much-predicted market correction. Regardless of what's causing the volatility, investors need to be aware of their options and the implications of their actions during these turbulent market conditions.

But what is volatility, really? By financial definition, it's an arithmetic measure of the likelihood that a market security will increase or decrease in value within a short time period, which is a measure of standard deviation. Volatile markets, like the ones we've experienced recently, see a large amount of rapid price fluctuations along with a high volume of trading. The efficient market hypothesis tells us that fair market prices will adjust and correct in response to the release of new data and information, and that volatility is caused by changing investor opinion of the present value of securities in the market.

So how should an investor react under these conditions? While there's no definitive answer suitable for all investors, there are a number of general guidelines, some of which are as follows:

1. **Become an Impassive Investor** – In other words, don't allow emotions and short-term fears dictate investment decisions. Volatility in the markets can create fear or panic, which leads to irrational thought processes and poor decision-making. Contact your financial professional when there is fear or you have questions; he or she will provide the necessary insight to understand how the current activity is affecting your portfolio.

2. **Become Aware of Risk Tolerance** – A successful investor understands that risk cannot be eliminated. The key is to determine the amount of risk that can be tolerated before fear or panic begins to affect the decision-making process. Once you understand the amount of risk you can handle, you and your advisor can develop a long-term investment strategy that defends against risk factors and market volatility. Your financial professional should develop a strategy that is best suited for your specific risk tolerance and established goals.

3. **Diversification** – The best defense against market volatility is diversification, which represents the mix of investments held within an investor's portfolio. No financial professional can truly predict which asset class will perform best during a specific period of time, but strategically scattering your investments among different asset classes will generally provide effective risk management.

4. **Stay the Course** – As cliché as it sounds, long-term investing is a marathon, not a sprint. Historically, investors who "stay the course" and don't overreact to market volatility are often rewarded by the performance of their portfolio over the long haul. Ultimately, the long-term success of your investment strategy will not be determined by the impact of short-term market fluctuation.

5. **Select a Trusted Financial Professional** – Investors should undertake careful due diligence in selecting a financial professional who is both knowledgeable and trustworthy. An effective financial advisor will provide you with essential insight and understanding of all market conditions, with proper consideration of your specific goals, objectives and risk tolerance. A trusted financial professional can also help eliminate impulsive and irrational investment decisions derived from short-term fear.

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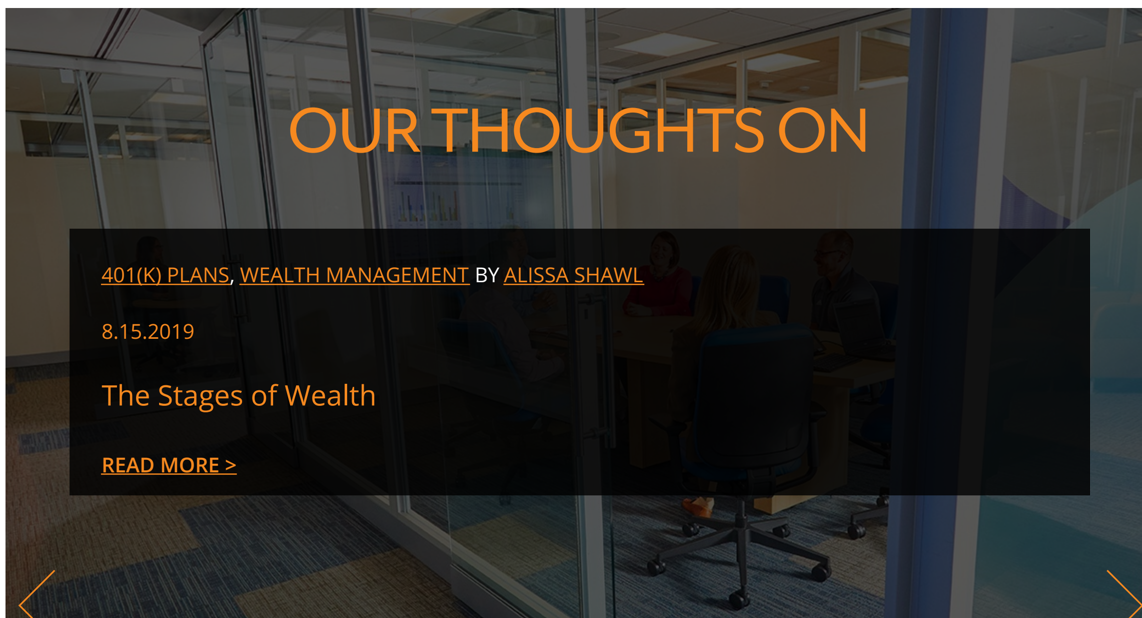

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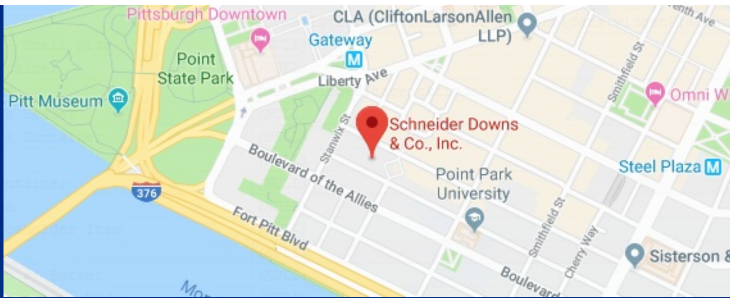

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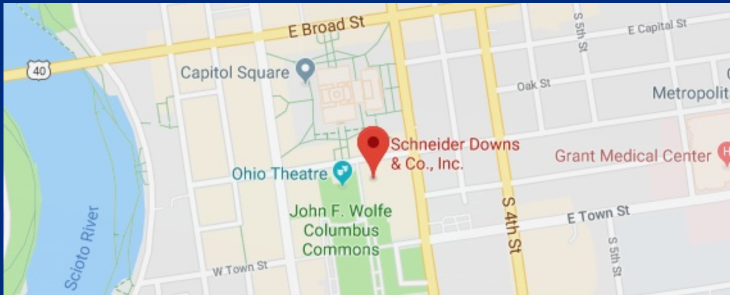

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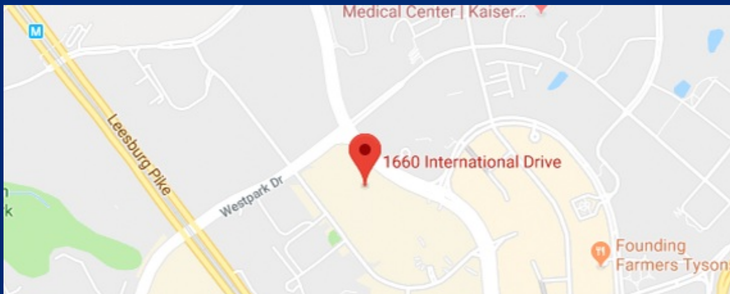

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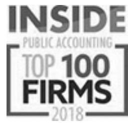

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