



HANDLING MARKET VOLATILITY

In the investment world, the word “volatility” refers to the changes (or fluctuations) in securities prices that occur every single trading day. An investment or asset class is considered very volatile if its price moves up and down frequently, at times by very large amounts. Volatility can be measured by tracking the range of an investment’s or asset class’s market price movements over a period of time.

What happened in February 2018 offers a good example of market volatility. The Dow Jones Industrial Average fell approximately 666 points on February 2, 1,175 points on February 5, and another 1,033 points on February 8. However, the Dow rose more than 300 points on two other trading days during the same period.

Are there lessons you can learn from this period of extreme volatility? Just as importantly, are there strategies you can employ to bring you closer to your financial goals irrespective of uncertainty in the financial markets? Keep the following in mind as you watch events unfold.

Volatility Is Not Unusual

Securities rise and fall in value every trading day. Price movements are not at all unusual. It is important to put the declines in perspective. The decline in the Dow Jones Industrial Average in the four days between February 5 and February 8 seemed a little scary, but in percentage terms, it was a decline of only 6.5% in the overall value of the Dow.

Paper Losses Don’t Become Real Losses Until You Sell

While it’s certainly unsettling to see the value of your portfolio decline, it’s also important to remember that the decline is only a loss on paper. It does not become real until you decide to sell or redeem those securities.

Diversification Is Key

While there is no guarantee, investing in a combination of stocks, bonds, and money market/stable value funds is a time-tested strategy for managing risk and may even help improve returns over the long term. Diversification works this way: When one asset class -- stocks, for example -- loses value, another asset class, such as bonds or cash alternatives, may deliver positive returns that can help offset those losses.

Moreover, you can achieve an additional level of diversification by investing in subgroups within asset classes. Stocks, for example, have many different categories: domestic, international, large capitalization, medium capitalization, and small capitalization. There are also stock mutual funds that invest in specific sectors of the economy, such as health care and telecommunications. However, diversification does not ensure a profit or protect against losses in a declining market.

Focus on the Long Term

When the market is volatile and unsettled, it’s important to remember why you are investing in the first place. Your long-term investment goals may include retirement, buying a second home, or paying for college for your children. Historically, long-term investors who have stayed calm and remained invested have done better than investors who let their emotions rule their actions and jumped in and out of the market during declines. See the chart for what can happen when you miss the market’s best-performing months.

Growth vs. Value: Compare the Performance

	Annualized Index Return	Potential Value of \$1,000
30-Year Period (1993 - 2022)		
Staying Invested	9.65%	\$ 15,844
Missing Top 5 Months	7.79%	\$ 9,487
Missing Top 10 Months	6.28%	\$ 6,215
Missing Top 15 Months	4.91%	\$ 4,213
Missing Top 20 Months	3.64%	\$ 2,927
20-Year Period (2003 - 2022)		
Staying Invested	9.80%	\$ 6,483
Missing Top 5 Months	7.04%	\$ 3,901
Missing Top 10 Months	4.89%	\$ 2,596
Missing Top 15 Months	3.04%	\$ 1,820
Missing Top 20 Months	1.43%	\$ 1,328
10-Year Period (2013 - 2022)		
Staying Invested	12.56%	\$ 3,266
Missing Top 5 Months	7.38%	\$ 2,038
Missing Top 10 Months	3.71%	\$ 1,439
Missing Top 15 Months	0.92%	\$ 1,095
Missing Top 20 Months	-1.44%	\$ 865

Source: ChartSource®, SS&C Retirement Solutions, LLC. Stocks are represented by the S&P 500 index, an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. © 2023 SS&C. Reproduction in whole or in part prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions.

Dollar-Cost Average

With dollar-cost averaging, you invest a fixed amount of money on a regular schedule in shares of a stock or a mutual fund. When share prices fall, the fixed amount you invest on schedule buys more shares. You are essentially taking advantage of a “sale” on securities when you continue adding money to your investment account on a regular schedule during times when prices are lower.

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