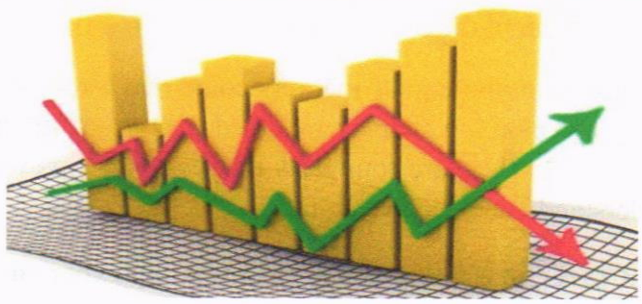
Strategies for Investors in a Volatile Market

During volatile times, many investors get agitated and begin to question their fundamental investment decisions and choices. This is especially true for those investors who monitor their portfolios daily and can be tempted to pull out of the market and wait on the sidelines until it seems safe to dive back in. One thing that can be helpful is to understand that equity market volatility is part of the investment experience and is therefore inevitable. Equity markets can always move up and down, especially over the short-term. Some suggest that the only certainties in life are death, taxes and market volatility.

Trying to time the market can be extremely difficult. One solution is to always understand your personal situation. Try to plan for your equity investments to maintain a long-term horizon and ignore the short-term fluctuations. To help make your investment decisions less emotional and more focused it is helpful to understand volatility. If the daily swings in the stock market seem too chaotic, remember these movements are near impossible to fully predict. For many investors there is no reason to even subject themselves to daily market headlines. If you have a long-term investment horizon for your equity holdings of at least five years, chances are the current volatility will pass - possibly in a couple of weeks, months or in at least a couple of years.

Try to keep things in perspective. Market pullbacks (defined typically as between 5 and 10%), corrections (defined as 10 to 20%) and even bear markets (defined as 20% or more) are a normal part of the stock market cycle. According to Guggenheim, since 1945, the S&P 500 has declined between 5% and 10% 78 different times. The average time it took to recover to its previous highs was only about one month.
(Source: US News and Money Report 6/7/2018)

What is Stock Market Volatility?



In the securities markets, volatility is often associated with big swings in either direction.

For example, when the stock market rises and falls more than one percent over a sustained period of time, it is often called a "volatile" market.

Volatility and risk are not the same thing. When a stock is volatile, it means that it tends to make big moves (up or down). When a stock is risky, it means that it can lose money (go down). In financial terms, risk is the potential permanent loss of money whereas volatility is how rapidly an investment tends to change in price. Volatility does not just imply risk of loss. Volatility simply refers to the price action. Some investments may be more volatile than others. Equity investments as a category are much more volatile than a bank deposit, but that does not mean an investor should avoid investments in equities. Just because an investment is more "volatile" does not necessarily mean it is "riskier" in the long term. Investors should always discuss with their financial advisors the potential of short-term volatility affecting the daily value of their investments and plan their investments accordingly.

Short-term movements of the market are unpredictable and do not abide by any average.

Equity markets are never going to produce straight line returns for investors. For example, in 2017, the stock market had an unusual year in which it did not even deliver a correction of 5%. Meanwhile, 2018 brought investors the steepest correction in a decade during the fourth quarter and that year included a greater than 10% decline in the first quarter.

At any time, the equity markets could see a retreat of 10% or more which is referred to as a market correction. Here are four facts that can help investors understand market corrections.

1. Corrections are a part of the investing experience.

Since 1950, the S&P 500 has undergone 37 separate stock market corrections of at least 10%, not including rounding (i.e., declines of 9.5% to 9.9%). Considering that there have been over 69 years since the beginning of 1950, this works out to a correction, on average, every 1.87 years. ***(Source: The Motley Fool 5/2019)***

2. The average length of those corrections was about 6 months.

According to data from stock market analytics firm *Yardeni Research*, the S&P 500 has spent 7,135 calendar days in correction since the beginning of 1950. Since then, there have been 37 corrections (of at least 10%). This works out to an average resolution time of 192 days, or slightly more than six months. Of these 37 drops in the market, 23 of them have resolved in 104 or fewer days, with only seven lasting longer than 288 days. 11 of the 14 instances that lasted longer than 104 days occurred between 1950 and 1984. ***(Source: The Motley Fool 5/2019)***

3. "Rally" days outnumber correction days 2.55-to-1 since 1950.

Key Points

1. **Market volatility is not the same as market risk.**
2. **Corrections are a part of the investing experience.**
3. **Beware of media magnification**
4. **Avoid making emotional decisions**
5. ***Focus on your personal goals and call us with any concerns.***

Since the beginning of 1950 until May 13, 2019, there have been a total of 25,335 calendar days and over 69 years of data. During this time span, the S&P 500 has spent 7,135 of those calendar days tumbling from a peak to a trough. This means that for the other 18,200 calendar days, the S&P 500 has spent its time rallying from these correction lows. This ratio of upward momentum (18,200) to correction (7,135) is a healthy 2.55-to-1. ***(Source: The Motley Fool 5/2019)***

4. Big up days occur within two weeks of big down days 60% of the time.

J.P. Morgan Asset Management releases an annual report titled, "Staying Invested During Volatile Markets." This report looks at the S&P 500 over the trailing 20-year period and calculates what an investor would have made had they stayed invested, rather than trying to time the market by jumping in and out when they saw the first signs of trouble. Oftentimes, missing the S&P 500's 10 best days means losing more than half of your would-be 20-year returns, missing around 30 of the best single-session gains, resulting in a loss over the 20-year period. ***(Source: The Motley Fool 5/2019)***