Market Volatility Déjà Vu

By Eve Kaplan, CFP®

Every time markets go haywire, it's worth remembering that volatility is the "the price of admission" to hold something (usually stocks) that outpace inflation and deliver good returns over the long-term. The key point here is delivering good returns over the l-o-n-g t-e-r-m. Do investors know when stocks are going to correct? Usually not? Do they know how much they'll correct? Definitely not. Is it worth trying to "time" markets by selling when you anticipate a coming correction, and trying to buy back when you think stocks have "bottomed"? Again, definitely *not.*

The same goes for bonds, which may be less volatile (appreciate less than stocks, decline less than stocks) but also can undergo significant change in a short period of time (now).

So what should investors do? If you're working with a reliable advisor, you'll be reminded periodically about this annoying "price of admission" and your portfolio may be rebalanced in order to take profits in relatively good performing areas and buy more of the beaten-up investments. A good advisor will tailor your portfolio so it's the "best fit" (best outcome) within the context of your overall financial plan. In other words, the best combination of bonds/stocks/alternative investments *for you* that brings you the *best financial outcome* "to the end of your life/lives" and possibly beyond (an estate for your heirs).

What if everything tanks simultaneously? Yes, it's happened before (example: 2008) and it can happen again. In that case, it's best to sit tight and let markets reestablish themselves. Even the most diversified portfolio can't withstand severe market forces that may push all asset classes lower — but this is a temporary phenomenon. Investors will return to markets — institutional investors in particular cannot remain on the sidelines for long. Pension funds and insurers must generate returns to address their investors, and cash just doesn't cut it for very long.

It's best not to react when markets go haywire because it dings investor performance. It's hard to see returns get erased on paper, but it's even harder to lock in a gain or loss and have to buy back the same position at a higher level.

Here's a useful chart from Dimensional Fund Advisors (www.dfaus.com) that illustrates why it's important to stick with your investments overall. The chart below "shows the annualized compound return of the S&P 500 Index going back to 1990 and illustrates the impact of missing out on just a few days of strong returns. *The bars represent the hypothetical growth of $1,000 over the period and show what happened if you missed the best single day during the period and what happened if you missed a handful of the best single days. The data shows that being on the sidelines for only a few of the best single days in the market would have resulted in substantially lower returns than the total period had to offer.*" (Emphasis mine; Source: Dimensional Fund Advisors, 2019).