



# SURVIVING INVESTMENT VOLATILITY

## *Resisting the temptation to make short-term adjustments*

Some investors may have had a roller-coaster ride in recent years. A market fall can happen at any time. In years past, they've been triggered by natural disasters, oil price spikes, wars, bank collapses and the more recent eurozone debt crisis. The reality is that market swings happen often, and when they do, it can be unsettling for many investors.

### **RESIST THE TEMPTATION**

Nothing ignites the fear of losing one's hard-earned money like a short-term market correction. A natural reaction to that fear might be to reduce or eliminate any exposure to the stocks, thinking it will stem further losses and calm your fears. But disciplined investors typically do just the opposite: they try to maintain an appropriate, diversified mix of investments and resist the temptation to make short-term adjustments. The simple truth is that volatility is a fact of investing life, and you're often better served staying in the markets over the long term than pulling out.

**Here's why, and how, you can do it:**

### **TOLERANCE FOR RISK**

Understandably, some investors may overreact to short-term market volatility that isn't usually relevant to their long-term goals. Your time horizon, goals and tolerance for risk are key factors in helping to ensure you have an investment strategy that works for you. Your time horizon is the number of years until you will begin to use what you've invested. Your tolerance for risk should take into account your broader financial situation such as your savings, income and debt – and how you feel about it all. Looking at the whole picture can help you determine whether your strategy should be aggressive, conservative or somewhere in between.

### **SET REALISTIC EXPECTATIONS**

If you are nervous when the market goes down, you may not be in the right investments. Even if your time horizon is long enough to warrant a more aggressive portfolio, you have to be comfortable with the short-term ups and downs you'll encounter. If watching your balances

fluctuate is too nerve-racking for you, think about re-evaluating your investment mix to find one that feels right. But be wary of being too conservative, especially if you have a long time until you need the money. Set realistic expectations, too. That way it may be easier to stick with your long-term investment strategy.

### **EXTREME MARKET VOLATILITY**

The key to long-term investment success is having a balance to your investments. Having all of your money invested in one asset class can be a very high-risk approach. One of the most important things you can do to help protect your portfolio from volatility and down markets is to diversify. While it won't guarantee that you won't have losses, it can help limit them. It was put to the test during the extreme market volatility during the global credit crisis in 2008.

### **CORE ASSET CLASSES**

So how do you diversify? First, consider spreading your investments among at least the three core asset classes: stocks, bonds and short-term investments. You may also want to include other assets that are not always closely correlated with the core asset classes. Then, to help offset risk even more, diversify the investments within each asset class. Check where your funds are invested and spread holdings over different sectors and geographical areas. Review the balance of your assets: are you exposed to too much or too little risk? You should also check to see if new asset allocations match your risk profile.



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### SMOOTH OUT RISK

Attempting to move in and out of the market can be costly, particularly because a significant portion of the market's gains over time have tended to come in concentrated periods. Many of the best periods to invest in stocks have been those environments that were among the most unnerving. Drip-feeding money into investments at regular intervals can allow investors to smooth out risk through 'pound-cost averaging'. This requires you to invest in all conditions, thereby helping to avoid the poor decisions that some people may make when trying to second-guess the market. When the market falls, your payment will buy more shares or units in a fund so you'll have a bigger holding at the point markets recover.

### THE RIGHT MIX

Look at the type of investment funds you hold and make sure they are best placed to give you some protection if markets fall, but also to benefit when they rise. Good quality fixed-interest funds are likely to be relatively stable, whereas equity funds can be more volatile, so if appropriate to your particular situation,

you could consider holding a combination in the right mix for you.

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