RAYMOND JAMES

Weathering market volatility

During times of volatility, it's wise to remain calm.

"You can't overlook volatility, but you don't let it push you around in the market" - T. Boone Pickens

Times of market volatility rightly concern all investors. However, becoming too worried or following the ups and downs of the market too closely can become emotionally draining, even for seasoned investors and can also potentially affect long-term plans.

KEY TAKEAWAYS

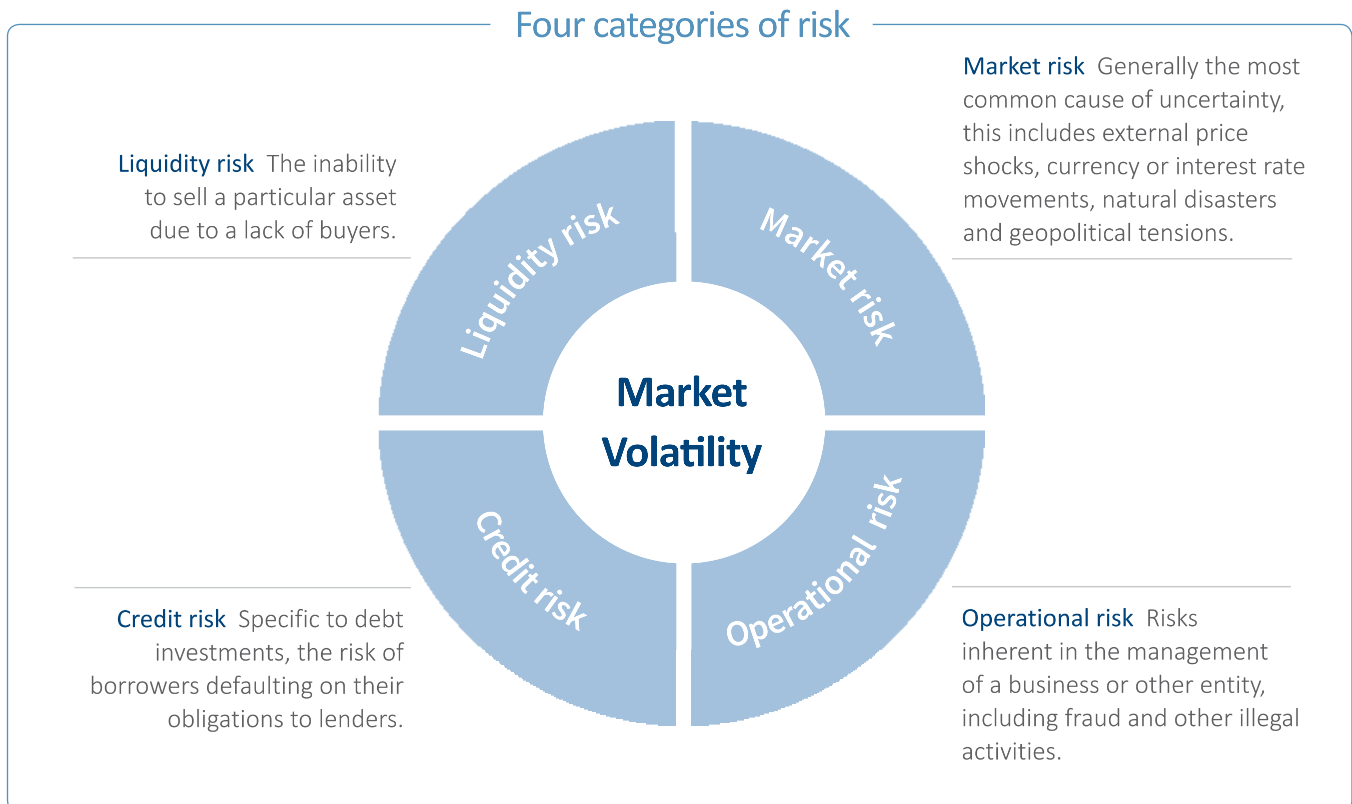
- Volatility is the product of uncertainty in the financial markets.
- Effective asset allocation and diversification can help protect your portfolio.
- Maintain perspective. Despite periodic pullbacks, returns over multi-year periods are generally positive.
- Your financial plan is in place for a reason.
- Periodic check-ins with your advisor and rebalancing as necessary can help keep your portfolio on track.

DEFINING VOLATILITY

Volatility is when the price for a financial asset goes up or down dramatically. The graphic below highlights the main drivers of financial asset volatility but at the root of nearly all volatility is uncertainty. When previously unforeseen risks become apparent to investors, they may react with anxiety and confusion. Often, in an attempt to avert losses or gain profit, investors frantically buy or sell, causing asset prices to fluctuate.

Recent discussions around world trade policy or Brexit are good examples of where new information and insights have caused some changes in investor opinion and thoughts which has led to volatility. Clearly, opinions can change back again over time, and this is why a focus on long-term investment goals and plans is typically better.

> The root of nearly all volatility is uncertainty



PLAYING THE LONG GAME

The nature of the investment markets is that there will be always be a regular flow of new pieces of information which cause investors to become more excited or more worried about a particular investment over the shorter-term. In investment markets, we typically call this 'noise' and your first defence against being unduly influenced by it is working with your wealth manager to craft and maintain a balanced portfolio relevant to your risk tolerance. This will probably include diversifying across various classes, sectors, and securities - with different investment drivers - to help ensure that any shorter-term volatility in one part of your portfolio does not flow directly across into volatility for the whole of your portfolio.

A key aspect of maintaining your portfolio through any market is having a clear understanding of your tolerance for market movements.

VOLATILITY MAY PRESENT OPPORTUNITIES

The better news is that market volatility isn't always bad news. Though it may be tempting to concentrate on losses caused by price fluctuations, it's important to remember that volatility – and changing price trends – may offer opportunity for gains as new information and insights evolve and shorter-term fears maybe abate.

One way to potentially use volatility to your advantage is through regular investing each month or quarter after discussions with your wealth manager.

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