Affluent Investors and Market Volatility:

What You Can Do Today to Protect Your Assets

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Introduction

Everyone knows the securities markets are volatile, both up and down. However, not everyone's tolerance for risk is the same. In fact, this tolerance varies dramatically based on the purpose of the assets and the timing for when investors need the assets.

Part of the volatility issue is the securities markets moving in short spurts. Investors may not see it coming. In fact, no one that we know of has a crystal ball that can accurately predict short-term market movement. This, in turn, can add to the anxiety of investors who are not sure why markets are volatile and what they should be doing about it.

What we do know is that the stock market is a lot like a roller coaster with its ups and downs. In recent times, we can see days when the markets are up or down based on recent earnings reports, bad economic news, or new government policies that impact the earnings of companies that we all invest in.

We wrote this Guide for Affluent Investors to provide some insights into why markets are volatile and what investors can do to manage volatility (and sleep better at night).

For your financial well-being,
The Team at ViaWealth

What is Stock Market Volatility?

In simple terms, we define the market as the stock market with its proxies, the Dow Jones Industrial Average and the Standards & Poor's 500. Volatility is the price movement up or down, since these indices are supposed to mirror the movement of the markets. The bigger and more frequent the price swings, the more volatile the markets are considered to be.

Is market volatility normal? Unfortunately, yes: It's a normal part of the investment process and it should be expected when you are investing your assets over longer time periods. We saw relatively steady growth in the markets from 2009 until recently, when there have been some fairly dramatic changes in the government, national debt, and the economy.

It's important to remember that volatility can apply to both up and down market movements. Typically a decrease of 10% or more in a major market index, such as the Dow Jones Industrial Average, the S&P 500, or NASDAQ Composite is considered a market correction. A decline of 20% or more is considered a bear market and a 20% increase after a bear market is referred to as a bull market.

Tip: Stock market volatility is normal.

Why Is Securities Market Volatility So Difficult To Predict?

There are formulas that are designed to predict the future performance of the securities markets. The more sophisticated examples can have hundreds of variables that impact their predictions. And, at the end of the day, who says they are even right? Like baseball players, they only produce hits part of the time.

The core statistic is the earnings of public companies. Are the earnings beating the forecasts of hundreds of analysts—or are they lagging behind predictions? And, if they are lagging, why?

- Inflation is impacting their costs
- Recession is impacting their revenue
- Changes in government regulations impact their profits
- Increased taxation at all levels
- Supply chain disruptions
- The impact of COVID-19 and other health issues
- Outside influences such as Ukraine and the Southern border

You can see the complexity because many of these factors are interacting with each other and some of them are changing hourly, daily, weekly, and monthly.

Tip: The number of variables makes it difficult to predict the future performance of the stock market.

How Does Market Volatility Impact you?

We assume you are not concerned about the securities markets going up. It is that downward direction that is a cause for concern. And, substantial declines over short time periods can create anxious moments because they are difficult or impossible to predict. In fact, they are most likely surprises.

Let's assume you own one stock, a proxy for the market, and you paid $100 for it. Today it is trading for $75; a decline of 25%. You believe the company that issued the stock is still a quality company, so you decide to hang on to it. In this example, you have an unrealized loss or paper loss of 25%, but you have not booked or realized the loss because you did not sell it.

What happens if you sell the stock at $75? At that point, you have realized a loss of $25 per share. Fortunately, you use the proceeds to buy the stock of another company with a depressed stock price. Which one performs the best determines if you made the right sell and buy decisions.

If you want to drive yourself crazy, follow the day-to-day volatility in the securities markets and try to predict short-term price movement like the day traders. You may have more peace of mind if you ignore the short-term volatility and focus on the overall quality of your investments.

Tip: Follow the financial performance of the companies in your portfolio.

Why is Financial Planning Even More Important During Periods of Volatile Markets?

There is no substitute for a sophisticated financial plan that anticipates volatile markets. How you respond is already part of the plan. As the old saying goes, "Your biggest risk is not the volatility of the stock market—it is a failure to achieve your financial goals."

Market volatility may be unnerving, but your primary goal is still the achievement of your financial goals. Volatility is a blip in the road. Your financial plan is focused on the achievement of goals and the minimization of risks that undermine the achievement of those goals.

Affluent individuals and families rely on Certified Financial Planners™ to help them develop sophisticated financial plans that anticipate volatile markets:

- Your investment horizon (when you need the money) impacts your tolerance for risk.
- Your financial plan assumes markets go up and down.
- Your investments are diversified to minimize the risk of large losses.
- You use conservative assumptions to measure your financial results
- Your planner monitors factors that impact your purchasing power.
- Your exposure to risk is being constantly scrutinized

Tip: Meet with a Certified Financial Planner™ to make sure you are on the right track for pursuing your financial goals.

How Long Will the Market Volatility Last?

Do you have a succession plan in place? If you're You drive your car looking out the windshield and not looking out the rearview mirror. The same is true for the management of your assets. What has already happened is factored into the current prices of your investments. Therefore, what you see in the rearview mirror has no bearing on what you see when you look out the windshield.

The stock market is also called a "leading economic indicator" on the basis that it is looking six months ahead to determine what is coming next. All of those Wall Street analysts make excellent livings predicting the future of the economy and the earnings of companies.

The duration of downward market volatility varies, based on the conditions that triggered the volatility:

- Inflation has to get back to 2%
- Gas prices need to be under $3.00
- Supply chain issues must end
- Companies are hiring
- Wages are going up
- Consumers start buying
- Company earnings are rising
- And, it looks sustainable with no surprises

No one can predict the future performance of the stock market. That is why working with an experienced financial advisor can help you navigate these uncertain times.

Tip: Focus on the achievement of your long-term goals.

Why Is Market Timing a Myth?

Financial advisors know what many investors want to hear. They want to hear that their financial advisors can predict when the markets are going to go up and down. And, they can predict the market movement before it happens. So, if you believe this sales pitch, then you believe you are fully invested when the markets are going up and in cash equivalents when the markets are going down.

Why is this a sales pitch? Because you have to believe that timers can predict the future performance of markets. No one has a crystal ball that is that accurate over longer time periods.

Tip: Avoid financial advice that is based on accurately predicting the short-term performance of the securities markets.

Should you consider delaying your retirement during volatile securities markets?

The United States experienced a 17-month Bear market from October 9, 2007, to March 9, 2009. The S&P 500 lost approximately 50% in value during this period. The duration of this Bear Market was less than normal due to the intervention of various governments and central banks.

Suppose you had 70% of your retirement assets (401k, IRA, personal savings) invested in stocks that performed similarly to the S&P 500 at that time: You would have seen your retirement assets decline in value by 35% (50% of 70%).

Some financial experts call the three to five years before and after your retirement date "the risk zone." The period from 2007 to 2009 is an example of the risk that can occur when you are in the zone.

How would you react to this severe drop in the amount of assets you have available for retirement? Delaying your retirement is one of your options. That is tantamount to waiting for the markets to recover then you retire.

Perhaps you delay the trip around the world that was scheduled to occur during your first year of retirement. Two of the more onerous alternatives are part-time work and/or a reduced standard of living. When you consider these alternatives, your best choice may be to reduce your risk exposure when you are in the zone.

Tip: Reduce your exposure to riskier investments when you are in the zone.

How Does Stock Market Volatility Create Buying Opportunities?

When the markets decline in value, very often they take down the good companies as well as the bad companies that are suffering the most. This creates buying opportunities for astute investors who realize these lower stock prices may not last forever.

Tip: It takes discipline and investment knowledge to invest during down markets.

Why Is It a Mistake To Let Emotions Drive Your Investment Decisions?

Your emotions may be telling you to buy when the markets are producing positive returns and sell when the markets are producing negative returns. A rational investor will likely do just the opposite. They are buying when the prices of securities are lower and they are selling when the prices of securities are higher. This is more than just a buy-low-and-sell-high strategy. This is about overcoming emotions that are telling you to do just the opposite.

Tip: You need disciplined investment advice during volatile times.

Why Is Your Investment Horizon a Key to Investing in Volatile Securities Markets?

You are accumulating assets for a number of strategic reasons. Build that second home in the mountains or by the sea. Send your children to highly regarded universities (where perhaps they will be seeking advanced degrees). Or, you want to accumulate as much money as possible to fund your retirement years.

When you need the money should be a critical part of your planning process. For example, let's say you want to buy or build a second home in 2026, your children will head off to college in 2030 and 2032, and you plan on retiring in 2050. Each of these dates should have a major impact on an investment strategy based on when you will need the assets.

Tip: Investment horizon is a key component of risk management.

Why Is Funding Your Retirement the 800-Pound Gorilla in the Room?

Longevity can be a blessing or a curse, based on your physical and financial well-being during your retirement years.

If you and your spouse retire at age 65, there is an 85% probability one or both spouses will live to be 95 years of age. That means your assets have to produce increasing amounts of income to offset inflation and rising costs late in life (such as assisted living, skilled nursing, and memory care).

If that sounds like a long time, medical science may make it possible for your children to live well into their hundreds as certain diseases are eradicated through healthier lifestyles, new medical procedures, and advanced drug therapies.

Tip: You can never have too much income for your retirement years.

How Long Will the Market Volatility Last?

Your money should be diversified between various asset classes so that you do not have all of your eggs in one basket. And, you do not want all of the asset classes going up and down at the same time based on the same market conditions. You minimize your risk when some of the asset classes perform better in down markets.

Let's define asset classes in a little more detail. We will start with stocks. For example, there are:

- Domestic stocks and foreign stocks
- Big, medium, and small capitalization stocks
- Growth and value stocks
- Dividend-paying stocks
- Stocks in various industry groups

The same can be said for bonds. For example, there are:

- Government bonds
- AAA, AA, and A bonds
- Junk bonds
- Long, intermediate, and short maturity bonds
- Municipal bonds

There are also alternative investments that have different performance characteristics in volatile markets. For example, there are:

- Real estate equity
- Real estate debt
- Precious metals
- Commodities
- Collectibles

Tip: Invest in multiple asset classes to help minimize losses during volatile markets.

Conclusion

There is no substitute for high quality, disciplined financial advice during turbulent market conditions. Talk with the ViaWealth team today about many of the topics discussed in this complimentary guide.