Dealing With Volatility

There are bull markets, bear markets and then there are the volatile markets that can create an emotional rollercoaster for investors reacting to and second guessing economic and political events.

All in all, it can make for a stomach-churning experience that can undermine the confidence of even the most stalwart of investors and turn a rational investment strategy into an irrational market reaction. With this in mind, here are a few things to keep top of mind in times of uncertainty and volatility.

Have A Plan And Stick To It

The most successful investors may follow the day-to-day drama of the markets, but they stick to the strategy they devised in calmer times and let patience not panic determine the long-term success of their investments. A well-planned strategy takes into account several important factors, such as your long-term objectives, your tolerance for risk (both financially and emotionally), your time horizon, and amount of investable assets.

This will result in a well thought out, broadly diversified portfolio incorporating different asset classes and investment styles and one that is balanced as to risk and safety, growth and income, and domestic and foreign exposure. Such a portfolio can substantially smooth your journey through rough markets and hence reduce the need to take any unnecessary action.

Stay With Quality

Long-term investors who have been through sell offs in previous years, know that time is on their side if they own good quality investments.

High quality, blue chip investments with a proven track-record of earnings performance or dividend payout may be dragged down with the turbulence, but will typically have less dramatic price fluctuations. And, as long as the business outlook for the company has not changed, it is likely that its share price will be restored when the market recovers.

Listen For The Knock Of Opportunity

Market volatility can present buying opportunities for long-term investors who have cash in their portfolios earmarked for equity purchases. You may consider investing more in the most viable long-term investments in your portfolio or have a short list of other quality buy candidates that become available at discounted prices.

This may also be a time to strategically upgrade your portfolio – selling poor performers and replacing them with stronger (yet also devalued) assets. But, do so only if the buy candidates fit into your overall investment goals/objectives.

Remember The Big Picture

Dramatic markets make good headlines, but they need perspective. Volatility is typically a short-term phenomenon measured in days, weeks and months. But over the years, the historic performance of the stock market is a patient reflection of the growth in the economy and the businesses that contribute to that growth. Long-term investors can take comfort in the steady increase in value that major stock markets have demonstrated over the years.

Drown Out The Background Noise

The media coverage of volatile markets can range from rational and insightful analysis to sound bites characterized by end-of-the-world rhetoric. Don't make investment decisions contrary to your risk appetite based on sensational headlines. Filter out the background noise and resist falling prey to the herd mentality during turbulent markets.

Think Strategically

Talk to your Financial Advisor to ensure your investment strategy is structured to ride through volatile and uncertain investment periods or if changes should be made in terms of asset allocation, investment diversity or risk tolerance.

There is no such thing as a risk-free investment portfolio in uncertain times, but there are ways to give you peace-of-mind and help you sleep well at night, regardless of the previous day's events and their impact on global investment markets.

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