FRYE RETIREMENT PLANNING

401(K) BUZZ

The South Florida Resource for Qualified Retirement Plans

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Tips for Handling Market Volatility

Have you ever noticed that when your funds have been doing poorly, you experience a more intense level of displeasure compared to the level of pleasure you feel when they are doing better? Don't worry - you're not alone! This is a psychological effect known as loss aversion, and it's believed to be hard-wired into our brains.

The best way to respond to these emotional swings is to try to take emotion out of the equation altogether. Historically, over long periods, markets have moved up, though not in a straight line. It's that long historic sweep that you should focus on, not short-term movements.

You should also pay attention to the things you can control in investing and ignore what you cannot change. Here are a few tips to keep in mind:

- **Diversify your investments**. If you're well diversified across stocks, bonds and cash, the likelihood of suffering significant losses may be lower. If your investments are concentrated in one sector or class, it's like putting all your eggs in a single basket. If the basket falls, there's a good chance that those eggs will be broken. But if you spread your eggs in multiple baskets, the risk that all will fall at the same time becomes significantly smaller (and the chance that one or more baskets will rise, also goes up).[1]

- **Look at what's behind the slump**. There are lots of reasons why markets rise and fall, and they are not all tied to the financial performance of the companies issuing stocks or bonds. It's possible that the broad economy could be sagging, with low growth and/or high unemployment. Or a down market could be partly related to geopolitical events, such as unanticipated election results or natural disasters.

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- **Don't ignore your need for a good night's sleep**. If after examining your asset allocation to make sure it is aligned with your long-term goals and determining what's behind market weakness still makes you feel anxious about big market swings, perhaps you may want to revisit your investment allocations.

- **Put it all into perspective**. Historically, falling stock markets eventually recovered. Unless you have a very short timeframe until you need access to your retirement funds, or are well into your retirement years, it may be better for you to remain invested during a downturn. Even people who were unlucky to invest $1,000 in the S&P 500 right before a stock market crash made their money back within a few years if they continued to add $1,000 to the market every year, according to a study from CircleBlack, a financial technology company.[2]

  Time to Recovery:
  Great Recession: 2 Years
  Dotcom Bubble: 5 Years
  1970s Recession: 3 Years
  Great Depression: 7 Years

On balance, investing for retirement should be a fairly boring exercise. After all, it's a process where results unfold over decades, not weeks or months. Many experts believe the most important thing you can do when markets fall is... nothing. But you should do so only if the decision doesn't keep you up at night.[3]

[1]Diversification does not assure positive return or protect against losses in a declining market. All investing involves risk, including principal loss.

[2] Source: https://blog.circleblack.com/should-you-be-afraid-stock-market-crash. An investor needs to consider carefully the ability to maintain a regular investment program during an extended market downturn. Past performance does not guarantee future results.