

Financial Planning in a Volatile Market

The return of market volatility means refocusing on why you're investing

As volatility returns, investors should make sure their strategy matches their goals and timeline.

Tim Steffen, CPA, CFP®, CPWA®
Director of Advanced Planning



October 11, 2018

Recent volatility has proven what we all knew but maybe forgot – markets don't always go up. Experience has shown that sometimes things change suddenly and dramatically. While market forecasters try to predict how long volatility might last with a focus on the near-term, average investors should step back and consider the long-term ramifications and remember why they invested to begin with.

FOCUS ON GOALS

Every investment strategy is based on two things: what you're saving for and how long before that happens. For most investors, the most important goal is funding retirement. For those whose retirement is further in the future, day-to-day volatility shouldn't be a significant concern. Having a longer time horizon means time for investment values to recover before the proceeds are needed. Despite two significant bear markets within the last 20 years, most investors who stayed the course through those dips saw net growth in their portfolios over that time.

If you're on the cusp of retirement, or you have children about to begin college, or you're saving for a down payment on a house, your time horizon may be shorter. Quick, large swings in portfolio values can have an outsized impact, which is why shorter-term goals require a different investment approach. Less volatile investment vehicles can help preserve the value you've built. That doesn't mean you shouldn't have some stocks, but they should be a smaller piece of your investment pie.

ASSET ALLOCATION

Your natural inclination right now is probably to reduce the volatility risk in your portfolio, but there is a risk of overreacting, as well. Trying to time swings in the market – or worse, panicking and completely abandoning stocks based on a short-term move – can be very dangerous to your plans and goals. That is why it's important to have an asset allocation strategy that balances your goals and time horizon with your tolerance for risk. The right combination of stocks, bonds, cash and other investments can help insulate your portfolio in down markets without sacrificing the potential excess returns when markets are up.

In some cases it may be appropriate to adjust your exposure to stocks or other higher-risk investments. However, if that becomes the case, your Baird Financial Advisor can help you avoid the instinctual trap of selling low and buying high by setting a strategy for when you should shift your holdings back to an asset allocation that aligns with your goals.

Robert W. Baird & Co. Incorporated. Baird does not provide tax advice. Please consult your tax advisor.