Fasten Your Seatbelts

Volatility is an ever-present part of investing

THERE'S AN UNSPOKEN UNDERSTANDING WHEN WE STEP ABOARD AN AIRPLANE. We pay a fare to travel from one location to another, trust that the pilot and the crew will do their jobs well, and walk away satisfied that we flew the friendly skies and got to our destination.

In many ways, the experience we have while eating those complimentary pretzels is similar to the one we have as investors. We invest our financial assets, work with a trusted financial professional to help grow our portfolios, and hopefully reach our financial goals.

Unfortunately, you don't have to wait in a crowded security line at the airport before you experience turbulence. When things begin to head south, some investors may chose to reach for the sick bag and sell their stocks.

Those who flee the market may fear a correction—a term for when the market drops 10% or more. They may believe that decline could lead to a bear market. The reason doesn't matter as much as the consequence of their actions. They unbuckled the seat belt around their investments and made a run for the exit.

Highs and Lows

Investing in equities has always required riding out the ups and downs. The same goes for turbulence—it's a normal part of air travel that passengers know they may encounter. And unless it's severe, you may not feel it. The 24-hour cable news cycle repeatedly declares heightened volatility to be the "new reality."

In reality, the market has experienced intra-year dips annually for decades now, even in the years that it showed positive year-end returns. Volatility happens more frequently than many realize.

Over the past 20 years, the S&P 500 Index has shown declines every year (**FIGURE 1**). In most, it recovered and ended in positive territory. In others, it didn't rebound. But in each year, there was at least some point at which equities were down.

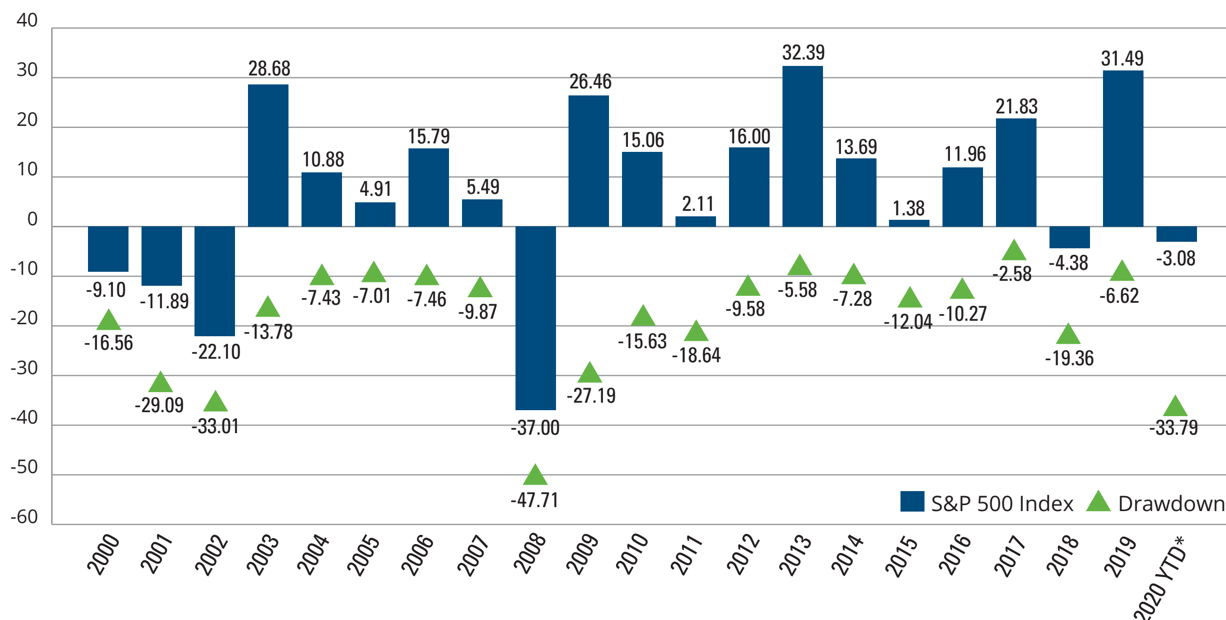
This seemingly unpredictable market cycle of gains and losses has investors asking, "How can we prepare for what comes next week, next month, or next year?" Plain and simple: develop a solid financial plan, stick with it, and resist the urge to panic.

Key Points

- Investing in equities has always required riding out the ups and downs.
- The market has experienced intra-year dips annually for decades now, even in the years that it showed positive year-end returns.
- A properly diversified portfolio and a regular rebalancing strategy can help put you at ease.

FIGURE 1

Intra-Year Dips in the S&P 500 Index Happen Frequently



Source: Morningstar and Hartford Funds, 1/20 | **Past performance does not guarantee future results. Indices are unmanaged and not available for direct reinvestment. Assumes reinvestment of capital gains and dividends and no taxes. Drawdown refers to the largest market drop from peak to trough during the calendar year.**

Now Boarding…

Just as those boarding a flight need to take heed and obey the rules and regulations of the flight, so, too, do investors when it comes to adhering to a financial plan. Haven't checked your plan out in a while? Maybe the time is right to review it with a financial professional. Together, you can reassess your investment situation and risk tolerance.

Being frightened and making an early exit may hurt if you're a long-term investor. Many younger investors are taking a volatile climate as an opportunity to buy. Yet, for those just a few years out from their retirement target date, it might be worthwhile to determine how much to invest in equities.

For those continuing onward:

1. **Consider a financial plan that features a diverse mix of equities and fixed-income investments.** This can help diversify your risk. By considering a varied mix of investment vehicles, you may have the potential to participate in the advantages of an up stock market. Although not risk-free, the use of fixed-income investments can help reduce the impact when equities fall.
2. **Consider setting up a rebalancing strategy to help keep you on the right track.** Pick a defined timeframe with your professional that you feel comfortable is the right span of time to adjust your holdings. Having a rebalancing strategy can help safeguard you from being exposed to too much risk. It'll also help you adhere to your overall plan regardless of the market volatility happening right now in the market—whenever volatility strikes.

Talk to your financial professional about preparing your portfolio for volatility.

Important Risks: Investing involves risk, including the possible loss of principal. • Fixed-income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall. • Diversification does not ensure a profit or protect against a loss in a declining market.

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