

The Three Little Investors and the Big Bad Volatility

A short story about the potential benefits of diversification and being resilient during volatile markets.



We all remember what happened to the three little pigs when the big bad wolf came looking for a tasty meal. This classic children's fable highlights the drawbacks of taking short cuts rather than taking the time to fully understand the risks of a situation. But this lesson doesn't just apply to children putting more effort into their chores or homework: It's also a useful metaphor for building a strong financial future.

The grown-up version of the tale can be applied to three different kinds of investment portfolios and the ever-present threat of big bad volatility. Whether or not your portfolio is sturdy enough to withstand volatility depends on how carefully you structure it in advance.

Let's see how the three little investors approach their portfolios and what each can teach us.

Gordy: The Straw Portfolio

Gordy is impatient for returns. He builds his portfolio from financial straw, chasing the latest trends in the headlines. He sees an influencer talking up a company and adds it to his portfolio on a whim, concentrating his portfolio in tech stocks soaring on AI hype, speculative cryptocurrency, and social media-driven trades. The market keeps hitting new highs, and life is great.

But then comes the volatility: Analysts begin doubting whether the sky-high valuations of AI companies are sustainable in the long term. Worried about a potential bubble, many investors hurriedly sell. Later that week, the cryptocurrency market hits an impressive peak, but concerns about new regulations on the industry spook the market.

Heavily invested in the cryptocurrency and AI companies and little else, Gordy's straw portfolio quickly collapses. Fearing any more big losses, he panics, sells at a loss, and vows to never trust the market again.

Lesson: Portfolios built on hype and concentrated in today's winners may generate impressive returns for a while, but once something undermines the current trends, they could fall as rapidly as they rose.

Key Points

- Volatility is inevitable, but putting together a thoughtful plan can help you stay invested through rough markets.
- Portfolios built on hype and trends, without discipline or diversification, may suffer losses far beyond your comfort zone.
- A diversified, goal-aligned portfolio—built with the help of a financial professional—may offer more resilience and help you stay the course during uncertainty.

Rosita: The Stick Portfolio

Rosita is more cautious. She builds a sturdier portfolio, reading financial news and gaining a basic understanding of the macroeconomic picture. Because US stocks have performed well recently, she decides to devote a large portion of her portfolio to an ETF that tracks a US large-cap stock index. She figures this provides exposure to hundreds of companies instead of just a few trendsetters.

For a while, this strategy works. As the US market soars, so does Rosita's portfolio. But while her portfolio had some well-known names and followed the market's upward trajectory, it lacked thorough diversification and a clear plan for risk.

So, when volatility rears its ugly head, Rosita doesn't immediately feel rattled. But as the market grows increasingly uncertain—driven by ongoing trade tensions, a wavering job market, and interest-rate uncertainty—her fear grows too strong.

Worried about losing even more, Rosita panics and sells her investments at a loss to prevent any further damage. Her relief is short-lived, however, because she then misses out on the rebound that follows a few months later.

Lesson: A decent plan is better than none, but without discipline and risk management, even sturdy sticks (and portfolios) can snap. This may make it difficult to stay invested long enough to benefit from a market recovery.

Wilbur: The Brick Portfolio

Wilbur takes a more deliberate approach. Most importantly, he brings in help: an experienced financial professional. Together, Wilbur and his financial professional discuss long-term goals and risk tolerance, then construct a diversified portfolio that's designed to provide long-term returns and balance resilience with growth.

This brick portfolio includes a mix of domestic and international stocks, as well as some fixed-income assets. The portfolio offers exposure to a wide variety of stocks, including the companies making headlines, but also avoids concentrating in overheated sectors.

In this case, when the wolf comes—blowing with uncertainty over trade, puffing with inflation, and questioning if the AI boom is over—the brick portfolio wobbles and suffers some losses. But its diversified foundation helps Wilbur's portfolio remain resilient overall, and though he keeps a wary eye on his portfolio, he feels confident enough to stay invested and wait for the market to recover.

Lesson: Though diversification does not ensure a profit or protect against a loss in a declining market, a solid and diversified plan that's grounded in fundamentals and aligned with risk tolerances can help investors withstand even extended bouts of volatility.



No matter how you approach investing, you'll inevitably face market volatility.

The Benefits of Preparing Today

Markets have soared on tech innovation and the ongoing strength of the economy. But the wolf of volatility has visited, driven by trade war threats and geopolitical unrest, leaving investors uncertain about whether tech innovation can sustain growth. So, while markets have continued to set new records, the path upward hasn't been a smooth one—and future performance is never guaranteed.

The takeaway is that no matter how you approach investing, you'll inevitably face market volatility. If you're not prepared for shifting markets, like Gordy and Rosita, volatility can collapse your hard work in quick fashion. But if you take a little extra effort to prepare a diversified portfolio from the start, like Wilbur and his brick portfolio, you can be better prepared for the challenges the market blows your way.

Talk to your financial professional to help you build a portfolio sturdy enough to stay invested during volatility.

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