focus On®

Surviving Market Swings

Investment Strategies for Uncertain Markets

PREVIEW

Contents

This material was written and prepared by Broadridge Advisor Solutions.

Factors That Cause Market Volatility

The financial markets are frequently beset by challenges. Political uncertainty, international conflicts, economic shifts, monetary policies, asset bubbles, debt crises, interest-rate decisions, and economic shifts — both here and abroad — can spur volatility in the financial markets. And often it's a case of *when* and not *if* it happens.

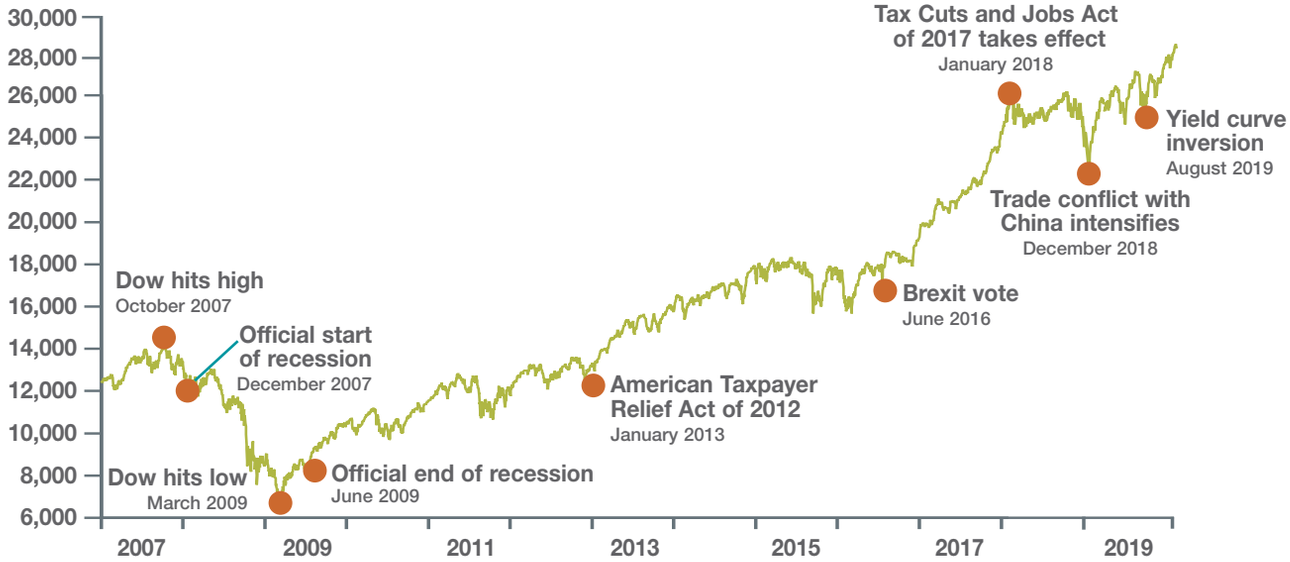
Your plans and expectations for the future shouldn't have to depend on daily fluctuations in the stock market. By using deliberate, time-tested approaches, you may be able to pursue your goals without feeling as though you need to constantly adjust your portfolio to react to today's news.

How Events Have Influenced Stocks

The graph below shows the performance of the Dow Jones Industrial Average from 2007 through 2019. Stocks fell more than 50 percent between October 2007 and March 2009, yet recovered much of their losses during the last three quarters of 2009. In reaction to the crisis, many investors reduced their exposure to equities and may not have participated fully in the market rebound.

Keep in mind that the value of stocks fluctuates with market conditions. Shares, when sold, may be worth more or less than their original cost.

In recent years, the Dow has reached new highs while enduring a few bumps along the way. In 2017, despite a contentious political climate, several devastating natural disasters, and three interest-rate hikes by the Federal Reserve, the Dow maintained its record-setting pace and closed the year approaching 25,000. In 2018, the Dow crossed 26,000 for the first time, but fell sharply in the fourth quarter, ending the year just above 23,000; four interest-rate hikes, political strife, and a trade dispute with China eventually took a toll on the markets. In 2019, stocks had their best year since 2013, despite escalating trade tensions with China and a yield curve inversion in August that triggered recession worries. Despite these hiccups, the Dow ended the year above 28,000.



Source: Yahoo! Finance, 2020, Dow Jones Industrial Average for the period 1/1/2007 to 12/31/2019. The Dow Jones Industrial Average is generally considered to be representative of U.S. stocks. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Historical Perspective of Market Movements

Realizing that markets move in cycles might help keep you from overreacting to short-term market swings. In fact, changes in market conditions probably occur more frequently than you realize.

A **pullback** is typically defined as a 5 percent to 10 percent dip in a market index (such as the S&P 500 or the Dow Jones Industrial Average) from a recent high. When an index closes 10 percent to 20 percent below its 52-week high, it is considered to be a **market correction**.

A **bear market** is typically defined as a decline of 20 percent or more from the most recent high, and a **bull market** is an increase of 20 percent or more from a bear market low.

In the first quarter of 2020, coronavirus fears and the realities of a seriously disrupted U.S. economy sent stocks into bear market territory. There have been 10 bear markets (prior to this one) since 1950. On average, bull markets lasted longer than bear markets over this period, and the average bull market advance (172%) was greater than the average bear market decline (–34.2%)

Keep in mind that neither the ups nor the downs last forever. In the midst of the worst downturns, there were short-term rallies and buying opportunities.

Bear Markets Since 1950	Calendar Days to Bottom	U.S. Stock Market Decline (S&P 500 Index)
August 1956 to October 1957	446	–21.5%
December 1961 to June 1962	196	–28.0%
February 1966 to October 1966	240	–22.2%
November 1968 to May 1970	543	–36.1%
January 1973 to October 1974	630	–48.2%
November 1980 to August 1982	622	–27.1%
August 1987 to December 1987	101	–33.5%
July 1990 to October 1990	87	–19.9%
March 2000 to October 2002	929	–49.1%
October 2007 to March 2009	517	–56.8%

Source: Yahoo! Finance, 2020 (for the period 6/13/1949 to 3/12/2020). Stocks are represented by the S&P 500, an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

11-Year Run

The bull market that began in March 2009 — the longest in U.S. history — ended in 2020 after about 11 years. It was driven by a combination of slow but steady economic growth, record corporate profits, and record low interest rates.

Sources: CNNBusiness, March 9, 2020; CNN, March 12, 2020

Is Volatility Becoming the Norm?

Investors often ask whether the causes of volatility are changing. One possibility is that new trading strategies — and the popularity of exchange-traded funds — may be driving more intense market volatility, which could spur a herd mentality among investors and lead to the markets moving down or up as a whole.

Factors That Influence the Economy and the Financial Markets

When developing your financial strategy, you must always consider overall market conditions and how they might affect your portfolio — now and in the future. You want to position yourself financially for a range of possibilities, taking into consideration the factors that may influence the economy and the financial markets:

- **GDP growth**
- **Inflation/interest rates**
- **Employment conditions**
- **Home prices**
- **Consumer spending**
- **Business investment**
- **Corporate profits**
- **Trade tensions**
- **Oil prices**

A Dim Outlook for the U.S. Economy in 2020

As recently as late 2019, the U.S. economy was expected to keep sailing along at a moderate pace. But that was before the outbreak of the novel coronavirus (COVID-19) spread quickly to become a global pandemic.

In March 2020, the Federal Reserve moved swiftly to support the U.S. economy and help alleviate stress in the financial markets, slashing the benchmark federal funds rate to near zero (0% to 0.25%) and essentially committing to unlimited debt purchases to support the financial markets. Emergency lending operations were launched to keep credit flowing to households and businesses.

With the outlook uncertain and evolving daily, economic projections by the Fed were delayed. However, the sudden halt in business activity means a sharp downturn in gross domestic product (GDP) growth, and a large spike in unemployment is widely expected. Unfortunately, a recession — two consecutive quarters of negative GDP growth — is not out of the question.

Sources: Federal Reserve, 2020; *The Wall Street Journal*, March 16, 2020

To help ease the economic pain caused by the pandemic, Congress responded with the largest economic relief bill in U.S. history. The $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed to aid hard-hit workers, businesses, and states, and to help speed up the economic recovery when the health crisis passes.

Four Steps to Building a Stronger Portfolio

Are you confident that you have positioned yourself to weather changes in the economy and the financial markets? Many investors are concerned about how recent events may affect their finances.

To benefit potentially during good times and bad, consider sound ways to help pursue your goals.

1. **Develop a Sound Financial Strategy**
2. **Assess Your Investment Options**
3. **Utilize Fundamental Investment Tactics**
4. **Put It All Together**

Develop a Sound Financial Strategy

A sound financial strategy can help keep you from being stampeded into making poor investment decisions — especially during uncertain times. There are three main considerations to bear in mind when developing a sound strategy.

1. Investment objectives

2. Time frame

3. Risk tolerance

"Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful."

— Warren Buffett

Source: 2004 Letter to Shareholders, Berkshire Hathaway

Investment Objectives

The first step in developing a sound strategy is establishing your investment objectives. What are you trying to achieve by investing? Are you working toward a comfortable retirement, a college education for family members, a cabin in the mountains, or a trip around the world?

Your personal financial goals will help determine the appropriate mix of assets for your investment portfolio depending on which objectives you are pursuing: preservation of principal, income, growth, and/or tax benefits.

Time Frame

The amount of time you have before you need to accomplish your goals can have a tremendous impact on the investment categories you choose. That's because fluctuations in the financial markets can affect the short-term value of certain types of investments.

If your time frame is short, you wouldn't want to invest all your money in aggressive investments that carry a lot of risk. You simply wouldn't have time to recover from heavy losses if they occurred. Retirees are especially vulnerable to market volatility. Think about what could happen if a bear market or a market downturn occurred during the early years of your retirement and you had a high percentage of your portfolio in stocks. Major losses could have a significant impact on the longevity of your portfolio.

Risk Tolerance

Determining your risk tolerance means evaluating how much risk you are willing to take in pursuit of your financial goals. Volatility in the markets can test the true risk tolerance of investors and drive home the fact that risk is an essential consideration of a sound investment strategy.

Risk Tolerance Quiz

How much risk are you willing to take to pursue your goals? Generally, the more potential for growth offered by an investment, the more risk it carries. This quiz will help you assess your own ability to withstand investment risk.

Which of the following investments do you feel most comfortable with?

a. Certificate of deposit
b. High-grade corporate bond
c. Growth stock

Of the following stocks, which do you feel would most suit your needs?

a. A conservative utility stock that pays high dividends but offers little change for long-term growth
b. A blue-chip stock that offers the potential for modest dividends and growth
c. An aggressive small-company stock that pays no dividends but offers great potential for long-term growth

What have you traditionally considered most important from your investments?

a. Safety
b. Conservative growth
c. Maximum growth

You just made a $100,000 investment. The following amounts represent the estimated best-case and worst-case scenarios after one year. Which range of possible outcomes would you prefer?

	best case	worst case	possible gain/loss
a.	$104,000	$96,000	$ 4,000
b.	$108,000	$92,000	$ 8,000
c.	$112,000	$88,000	$12,000

Which statement most closely resembles your feelings about risk?

a. I am not willing to take risks with my investments.
b. I am willing to take limited risks with my investments.
c. I am willing to take substantial risks with my investments.

If your risk tolerance changes, you may want to adjust your portfolio's asset allocation — for example, by reducing your exposure to growth-oriented investments or increasing the proportion of fixed-income investments.

Rebalancing a portfolio typically involves buying and selling investments, which could have tax repercussions.

SCORING

If you selected mostly "a" answers, you are likely to be a low-risk investor. For example, you might be mostly concerned with the preservation of your capital and the potential for current income. You aren't willing to risk your capital for greater potential returns.

If you selected mostly "b" answers, you are generally conservative, but recognize the need to consider growth-oriented alternatives. You may be willing to take modest risks to earn above-average, long-term returns.

If you chose mostly "c" answers, you may be a relatively high-risk investor. You are primarily concerned with long-term appreciation, and you may be willing to take on more risk to earn greater long-term potential returns.

