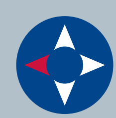

Managing your portfolio during volatile times

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Strategies for managing your investments in a volatile market

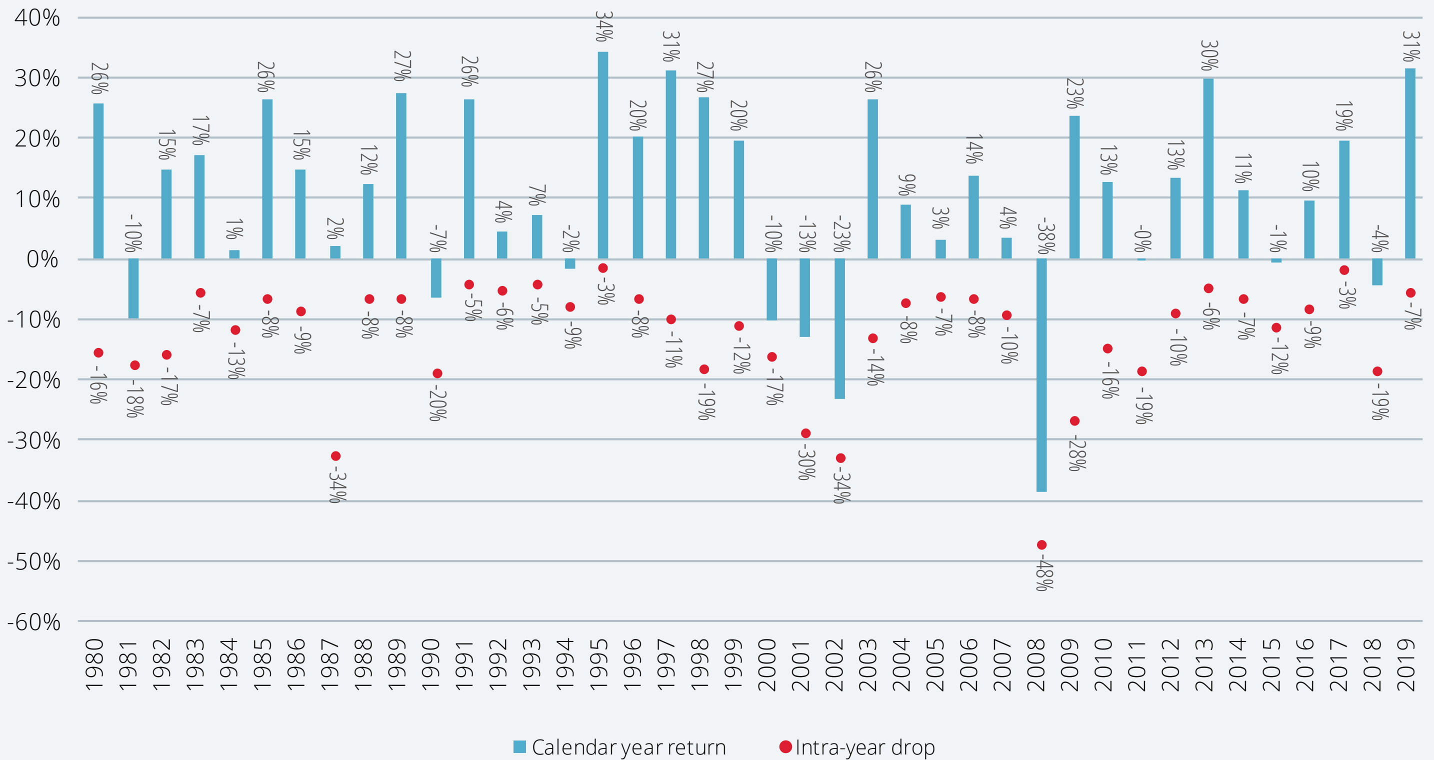
1. Set and stick to a strategic asset allocation framework that incorporates financial constraints, risk-reward expectations, and unique characteristics.
2. Remember that long-term investing is by definition, long term. Performance should not be measured in days, weeks, or months. Especially when allocating to a retirement account, viewing investment outcomes over decades is often the most appropriate time horizon.
3. Do not sell into panic. Mean-reversion is a powerful force and the market's strongest up-days often cluster around the market's worst down-days.
4. If volatility has truly impacted your long-term view, consider seeking advice from a professional or enrolling in a managed account service.

A mere three weeks ago, U.S. stocks were at an all-time high. But in what seems like a Hollywood movie come to life, a pair of exogenous shocks — an acceleration of the COVID-19 outbreak and an unexpected price war in global oil markets — have since taken the air almost completely out of the decade-long rally.

The severity of the COVID-19 outbreak and the ultimate impact on the global economy is still highly uncertain, as are the implications of the recent dislocation in energy markets. It's precisely this lack of clarity that has pressured the market and sent the VIX — a measure of equity market volatility commonly referred to as "the market's fear gauge" — to all-time highs.

Unfortunately, such volatility is likely to persist until there is greater clarity surrounding the economic impacts of both events and investors are able to reset their expectations accordingly. Meanwhile, hyperbole and emotion have taken control of the narrative and fear has become self-reinforcing. When that happens, the market tends to race to extremes.

Annual returns vs. intra-year declines



Source: Bloomberg

When emotions take over, it's easy to forget that large drawdowns are actually fairly common: U.S. stocks have returned 10% per year since 1980, despite suffering average intra-year declines of roughly -14% along the way.[1] In fact, it's years without a significant drawdown that seem to be the anomalies: only 10 times in the last 40 years has the market failed to have at least one drawdown of less than 7.5%.

Investors who see past episodes like this and maintain discipline are often rewarded for their patience. Eventually, clarity will return and calm will be restored. Investors who remain focused on the fundamentals will then be able to breathe a sigh of relief with the understanding that history was once again on their side. This too shall pass.

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1 Represents the largest peak-to-trough drawdown for the S&P 500®, based on daily closing values, during each calendar year since 1980. Data: Morningstar direct/GWI calculations.

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