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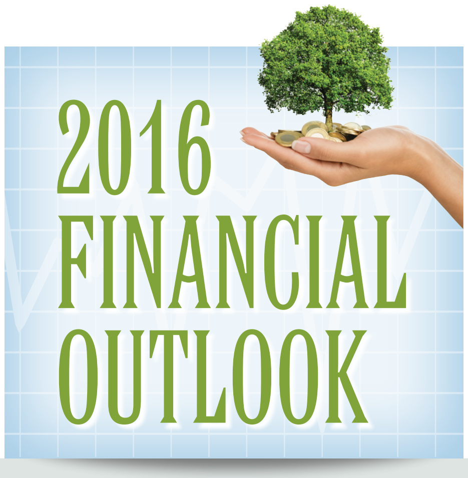

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Don't Let Short-Term Volatility Derail Your Long-Term Plans

By Fritz Miller

On February 11th, the S&P 500 was down more than 10% year-to-date. Less than two weeks later, that loss has been cut to less than 4%.

Just as we began to get accustomed to calmer markets during the post-2008 recovery, that relative stability quickly gave way to renewed volatility during the latter half of 2015, sparked by a weakening Chinese economy and subsequent devaluation of their currency. Fears of a global economic slowdown quickly spread, triggering an 11% drop of the S&P 500 during a single week last August.

The ensuing months have been a veritable roller-coaster of gradual recoveries followed by news and data (e.g., renewed China fears and slumping oil prices) that has sparked additional uncertainty and triggered more rounds of broader market sell-offs followed by recoveries. For the short-term at least, it seems as though dramatic market swings are likely here to stay.

A little volatility can be a good thing

First and foremost, by no means are these corrections necessarily a harbinger of bad things to come. Corrections are a normal and essential part of the cyclical nature of healthy markets, and often serve as an important pressure release valve, allowing bull markets to pause and catch their breath before renewing their upward momentum. In fact, it's when corrections don't occur (remember the dot-com bubble?) that investors should truly start to worry.

Certainly, if retirement is right around the corner you'll want to explore strategies to lock-in gains and mitigate a considerable amount of your investment risk. But investors with longer time horizons may, in fact, be well-served by heightened volatility. While others flee to the calmer waters of bonds and cash, volatility-induced stock declines (particularly in the face of otherwise strong earnings data) offer unique opportunities for long-term investors to reduce their average share cost through dollar-cost averaging before institutional investors flood back into the market to drive up stock prices.

History has repeatedly shown that it's not "timing the market" but rather your "time IN the market" that's the true recipe for investment growth. As is often noted, if you had been out of the market on the S&P 500's top five best-performing days since 1980, your portfolio would be worth about 25% less than if you had stayed fully invested, and if you had missed the S&P 500's best 30 days, you would have a portfolio worth nearly 75% less.

Stick with your financial plan

Whether it's about job security, family stability or investment confidence, we naturally desire predictability in our lives. The prospect of volatility tends to make us very apprehensive. Yet human nature also leads us to be slightly pessimistic, so that when faced with unpredictability, we instinctively go into self-preservation mode, making reactionary decisions that run counter to the core tenets of sound financial planning.

Instead of giving in to short-term fear and allowing it to derail your long-term goals, focus on working with your advisor to ensure you have a fully-integrated financial plan – one that addresses both short-term needs and long-term goals, with as much focus on tax-efficiency and diversification as on investment return.

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