CONSERVATIVE
FINANCIAL SOLUTIONS

Preparing for Market Volatility

Over the past 8+ years we have seen impressive market performance in nearly every major asset class. The most recent run-up, the one since the presidential election in November of 2016, has many analysts speculating that we are due for a market correction. Based on historical market trends, they are correct. The market tends to correct 10% once a year and 20% every market cycle[1], which means we are historically overdue for a correction. So, if a market correction is looming, what should the prudent investor do?

One of the best ways to weather the storm of a market correction is to understand the frequency in which they occur. As far as investment strategies, the simple truth of the matter is, no one has a crystal ball and no one can predict exactly when the next market correction is going to hit.

Many investors flirt with the idea of going to cash. However, the investor that goes to cash, has to get the timing perfect twice, when to get out and when to get back in. Although going to cash might sound like a good strategy, there is plenty of evidence to support the contrary.

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To prepare for an upcoming correction, investors need to stay focused on their long-term goals. Most investors are in it for the long haul and should not let a market correction distract them from what they are ultimately trying to achieve. If the goal is long-term accumulation and that plan is to stay invested for another 10 years, a market correction can be a great opportunity to buy-in. If the goal is sustained income in retirement, then the investor should be invested in such a way that a correction is not going to negatively impact income. The goal is not trying to time the market; the goal is to increase the amount of time in the market to take advantage of compounded returns.

In summary, investors need to know and understand that corrections are part of the natural ebb and flow of the market. With a potential market correction around the corner, the best action to take is to rebalance the portfolio to fit the current risk tolerance of the investor. This helps to ensure that the investor is not taking on an uncomfortable amount of risk. As concerns for a market correction continue to rise, it is a good opportunity to rebalance and realign portfolios with the long-term goals of the investor in mind.

[1] https://am.jpmorgan.com/blob-gim/1383301511033/83456/JPM29305%20MI%20-%20Market%20Bulletin_Investing%20with%20composure.pdf

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