

MARKET INSIGHT

Your information connection

05.01.2017

Worried About the Market? Prepare Now and Stay the Course in these Tumultuous Times

Not too long ago, the Dow Jones Industrial Average closed above 20,000 for the first time. It represented a milestone that many celebrated with subdued optimism and a smidge of disbelief regarding its longevity.

Yes, the market has been on an upward trajectory over the past 6 months. The economic world is excited about the prospects related to President Trump's campaign promises of a big infrastructure spend and tax breaks. However, as [we noted following the election](#), President Trump has made many appealing promises, but to date has not offered a lot of details on how he intends to deliver on those promises.

Even with the recent upward trends, there is still plenty of uncertainty. The president's first 100 days in office have been tumultuous. He's plagued by Russia rumors and the failure of the ACA repeal and replace. Things could change at any moment and the markets could turn. In fact, we saw an inkling of this in the market response to the president's remarks that the U.S. dollar is "too strong."

The geopolitical situation has also become more uncertain. The ever present threat of conflict with Syria, and now North Korea, also have the potential to spook the markets.

During times like these, it's impossible to predict where the market will head next. When times are uncertain, that's when we most need to keep our heads.

Don't panic during a market event

First, it's important not to panic during a market event. In 2015, a summer of global financial turmoil including a Greek default on an International Monetary Fund payment, China's devaluing of currency, and subsequent stock losses in China, led to several days of losses for the Dow Jones Industrial Average.

Aon Hewitt, a recordkeeping firm that monitors 401(k) plan trends, discovered that on Friday, August 21, 2015 [trading activity was twice the normal level](#) as equities were off by close to 3%. The following Monday, August 24, the Dow closed down 588 points. At one point, the Dow was down about 1,000 points. On that day, 401(k) trading activity was seven times the normal rate.

The elevated 401(k) trading activity points to panicked investors. Aon Hewitt indicated that many investors moved their money from equities and into fixed income investments.

Unfortunately, moving money like this, when the market is down, means locking in stock losses.

The first step to staying the course is to ensuring your allocation is appropriate BEFORE volatility, that way you can avoid major moves within your portfolio during a market event.

Acknowledge Market Turmoil

During tumultuous times, acknowledge that there could be market events that seem (and sometimes are) huge. It can be gut-wrenching to go through a market event, but it helps to inoculate yourself by acknowledging that we are going through a period of turmoil. The market is prone to ups and downs. Trend lines look concerning when you only see a few days or weeks.

This [chart from Macrotrends](#) shows the historical performance of the S&P 500. While there are definite downs, the trend over time has been higher. Over a 25-year period, the market has a whole has yet to return a negative performance.



As a retirement investor, you're playing the long game. Concerns about short-term market moves shouldn't drive long-term investing strategies.

Prepare for Upcoming Uncertainty and Volatility

There's nothing wrong with consulting a financial professional to adjust your plan. However, it's important not to make changes to your plan as a response to a market event. Instead, consider the underlying fundamentals of your investments and your portfolio.

If you decide you need to move some of your assets, wait until you are calm, and you've examined your reasoning. Have a plan for rebalancing at a time when markets are a little less volatile. Be sure to talk with a financial professional before making your move.

Practice General Financial Wellness

One of the best ways to prepare for tumultuous times is to practice general financial wellness. This includes basic personal finance strategies like living within your means, setting aside money for a rainy day, and reducing the amount of consumer debt obligations you have.

The better-positioned you are with your regular finances, the less likely you are to panic during market events. Take the time to create a holistic financial plan that addresses both short-term stability and long-term investing for retirement. Talk to a financial professional about your options and get help creating a plan that addresses your needs.

Continued education can help you learn more about how money works, and help keep you from making rash decisions when market trouble appears. Plus, a plan can help you feel more confident about your ability to weather tumultuous times.

None of us can predict the future. However, we know that market turmoil is inevitable at some point. Learn to weather financial storms by keeping a cool head and staying the course. ■

Written by: Andrew Zito, AIF[®], Executive Vice President, Retirement Plan Services