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Do You Think the Market Is Headed for a Fall?

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I write about advanced investing concepts – in everyday language.

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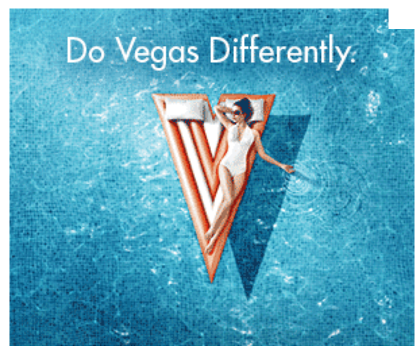
3 Things Every Investor Should Know About Recent Market Volatility



When the market takes us on the kind of wild ride we've just experienced, it is easy to let our emotions take over. For most of us fear sets in with the urge to "go to cash" or for some greed takes over and we want to "double down."

Look at Apple (AAPL) stock, for example. It fell dramatically during this time, continuing a fall that started in mid-July on the heels of a disappointing earnings outlook and several negative analyst reports. It briefly traded below $100 on Monday this past week before rebounding and, as of this writing, is trading above $110. Some say the jump is due to an email that Apple CEO Tim Cook sent CNBC host Jim Cramer on Monday, wherein he indicated that iPhone sales in China had accelerated. That one optimistic message seemed to turn weeks of dour outlook from Wall St. analysts upside down. It's a great example of how efficiently the market assimilates new information—and how no one can accurately predict short-term market movement.

Before you react and change your well-thought-out asset allocation, stop, take a step back and make sure your changes are guided by your goals and values, *not* your immediate emotions.

Firstly, market volatility (ups and downs) of the type we are experiencing now is a normal part of investing. A weekly drop of more than 5% is not rare; it's happened 28 since 1980. Volatility is simply part of being an investor. Historically, stock market corrections – when an index falls 10% or more from its most-recent high – happen every year and usually don't last long. This one may seem more extreme because it is the first one in the U.S. market in nearly four years – "the third longest such span in market history" according to MarketWatch. So, no aberration, no rationale for trying to play the market in this period of volatility.

Secondly, its not the move that's important; it's your response. Consider this conclusion from this year's DALBAR study: "No matter what the state of the industry, boom or bust: Investment results are more dependent on investor behavior than on performance. Investors who hold onto their investments have been more successful than those who try to time the market."

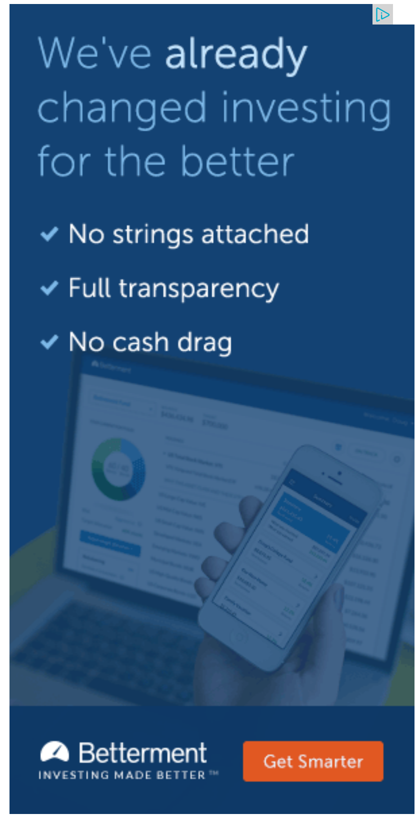
And if you need even more evidence that playing the market now is not a good idea, consider this nugget from the DALBAR study: Changing course during a market decline by pulling money out of the markets could cut your returns by 4% a year. Bottom line: Market timing doesn't work.

Thirdly, the best course of action is to stay the course with the investment strategy you've created with a trusted financial advisor. While past performance is no guarantee of future results, research shows that the market generally rewards disciplined investors who strategize for the long term.

If you really feel that you have to do something now, take this time to sit down with your advisor, talk about your strategy and see if your portfolio needs tweaking. Maybe this volatile market experience has caused you to realize you have too much invested in risky stocks, or that your portfolio needs more diversification so you can more easily ride out the market's ups and downs.

But remember: The time to make changes to your strategic asset allocation is after things settle down, not in the middle of a bout of volatility.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.



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