NBFWM - DID YOU KNOW?

5 Lessons about Volatility

Volatility gets a bad rap. But truth be told, if we did not have volatility, we would not have growth. Yes, growth spurts can hurt but you come out standing taller, stronger and wiser. In fact, without these growing pains, that we feel with every fiber of our body, we may not appreciate the lessons learned. In turn, we would miss boundless opportunities that we would undoubtedly fail to notice otherwise and overlook the inner strength we have to weather these difficult times. Whether or not there is more volatility lurking ahead, history has taught us that there are lessons to be learned. Here are five lessons about volatility that we can learn from the history of markets:

Lesson #1: Volatility isn't new. Volatility is defined by the liability to change rapidly and unpredictably. Market volatility is basically the rise and fall of prices in financial markets. Volatility isn't a new phenomenon; it is as old as the stock market itself. It is, in fact, part of the market investment experience. Your Advisor is there to help you understand volatility & the normalcy of volatility in financial markets, thus helping to lessen the anxiety you may feel in turbulent times. In turn, this helps reduce the "fear gauge" clients face. Many of the biggest historical swings in the DJIA were more than 80 years ago.

Lesson #2: Volatility is actually the status quo. In the last century, volatility has been ever-present in the markets. Between 1935 and 2018 the S&P 500 has seen:

- 4,563 total days with +/- 1% price movements
- 1,094 total days with +/- 2% price movements

That works out roughly to a 1% price swing every trading week – and a 2% price swing every month. Yet, over this lengthy time period, and after all of that volatility, **the S&P 500 has grown by 25,290%.** When understanding that volatility is part of the experience, and that volatility will surely happen, this can reassure the investor in times such as these and help manage their emotions. Preparing for a situation that will most likely happen will be less stressful when it happens than managing a crisis as it is unfolding. When your Advisor discusses volatility with you, he/she is being proactive in order to prepare you to potential highs and lows of the markets and in turn help you understand your tolerance level.

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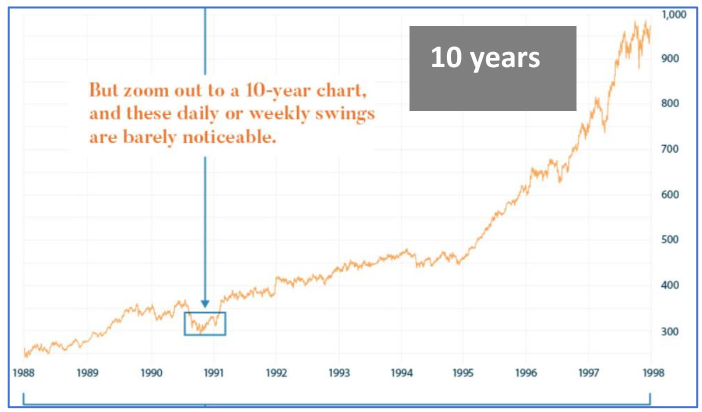
Lesson #3: Any short-term volatility disappears with a long-term view. Daily price swings can feel like a roller coaster. But if you take a step back and look at the big picture, this volatility is just a blip on the radar. For example, if you look at a chart of the S&P 500 from August 1990 to February of 1991, you'll see that daily volatility was rampant. But zoom out to a 10-year chart, and these daily or weekly swings are barely noticeable.



And if you zoomed out to a typical **long-term investment horizon of 30-40 years**, these swings are **microscopic** in comparison to the long-term trend. Seeing the big picture helps put things in perspective and reminds you to always go back to the plan you & your Advisor worked on together.

Lesson #4: Volatility can be easily weathered with a resilient portfolio. Understanding that volatility has been around forever, that it is part of investing and is fairly unavoidable, is not enough to weather these market phases. Building a resilient portfolio by diversifying between different asset classes is imperative. You and your Advisor have worked on a plan together. The investment products have been carefully researched and analyzed to ensure they are aligned with your life objectives. During these volatile times, the role of your Financial Advisor is to be present and to properly explain the situation at hand. It is during these times of insecurity that the expertise of your Advisor has its greatest value. It is important that you understand the reasons behind the volatility, therefore do not hesitate to reach out to your Advisor. Do not worry about bothering him/her and do not be shy to ask for clarity if need be. Your Advisor will be happy to take the time to inform you on market volatility and how it is affecting your portfolio.

Lesson #5: Volatility reminds us that there is no reward without risk. Risks are part of investing. **Your advisor needs to get to know you** and discuss your tolerance to risk. This is essential when preparing your long-term plan. It is just as important for YOU to understand your risk profile, especially when volatility periods arise. Your Advisor can help you understand risk and your tolerance to risk as well as its advantages; yes, there are some advantages. **For example**, stocks come with risk but also come with the best returns over time. By assessing your risk tolerance, this will determine if stocks are the best strategy for you. Some tools are used to help determine your investment profile. The client's understanding of volatility coupled with the Advisor's expertise on building a resilient portfolio can weather any storm. The role of your Advisor is to get to know you well, help you overcome emotions during volatile markets and ultimately reach your long-term plan.

Ref: Visual Capitalist, Feb 12th 2019