Market Decode: Volatility Is Not a Roller Coaster, Here's Why

with Nick Giorgi
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Please see important information at the end of this program. Filmed on 11/1/18.

[ON-SCREEN TEXT:
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Nick Giorgi: Let's talk about market volatility – those swings in the market that can be deeply unnerving for investors.

Take for example that time in early 2018 when stocks in the Dow plunged more than a thousand points in one day –

and then the next day zoomed back up almost 600 point.

Then, two days after that, they whipped back down over a thousand points again!

Those kinds of up and down gyrations are why folks in financial news often compare market volatility to a rollercoaster.

[ON-SCREEN TEXT:
Chart for illustrative purporses only.]

But is that really a good comparison?
[ON-SCREEN TEXT:
Chart for illustrative purporses only.]

For one thing, rollercoasters are supposed to be fun, supposed to be exciting.

But when you're talking about investments like your retirement savings, or your kids' college funds, a lot more is at stake.

Another thing about rollercoasters? In the end, they leave you exactly where you started.

But equity markets have historically tended to continue rising over time. That's kind of the whole point of investing.

[ON-SCREEN TEXT:
Past performance is no guarantee of future results.]

If you look at the S&P 500, for instance, since its inception it's gone steadily upward – with lots of short-term ups and downs along the way.

These periods can last a few days, or often longer. They might accompany bull markets,

when stock prices tend to be headed up, or bear markets,

when stock prices tend to be headed down.

So how can you get comfortable with these inevitable spikes of volatility — or even benefit from them?

First of all: Take a deep breath and remember what you're investing for.
Maybe it's college, or a down payment on a home, or your retirement.
Then ask yourself: Do I have a financial plan in place?

Because the most important thing you can do to help yourself sleep at night when markets are volatile, is to have a plan —

one that's based on your comfort level with risk, your liquidity needs, your financial goals, and your time horizon for meeting them.

A plan like that can help make you feel more confident that you'll be prepared when the markets get volatile.

Volatility could also open up new opportunities for you to consider.

A downturn could be an opportune time to buy certain investments, like high quality stocks and bonds that may have seemed too expensive in the past.

What's more, sharp market declines have historically been followed by strong returns in equity prices.

For example, over the last decade, market losses of four percent or morein a day were followed by gains of almost 10 percent over the next 90 days.

[ON-SCREEN TEXT:
Source: Bloomberg, U.S. Trust, Bank of America Private Wealth Management, Data as of December 2017. Returns shown for market cycle through (3/9/09 – 12/29/17). Past performance is no guarantee of future results.]

So pulling out of the market altogether during downturns could mean that you will miss out on the rebounds that typically follow.

So the next time you hear someone compare the markets to a roller coaster, think about the ways the markets are different.

And remember, having a long-term plan that reflects your comfort with risk, your goals and your time horizon – that's an effective way to ride out the market's inevitable and ups and downs.

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