

BEHAVIORAL & FINANCIAL INSIGHTS

Weathering Volatility – Are You Prepared?

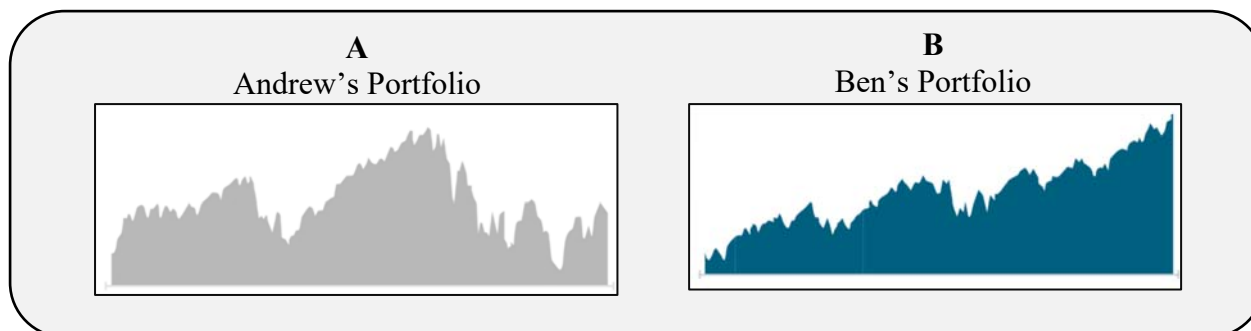
When volatility increases as it has recently, few investors are able to ignore it. Most investors get concerned and some become obsessed by it. Since we are emotional beings, such response is natural and expected. But that does not mean it is good for us; decision-making while one is emotional often leads to regret. **So, how do we live with the volatility of the market while remaining level-headed?**

I only know of two sound antidotes to market volatility: stop looking and/or maintain the proper perspective.

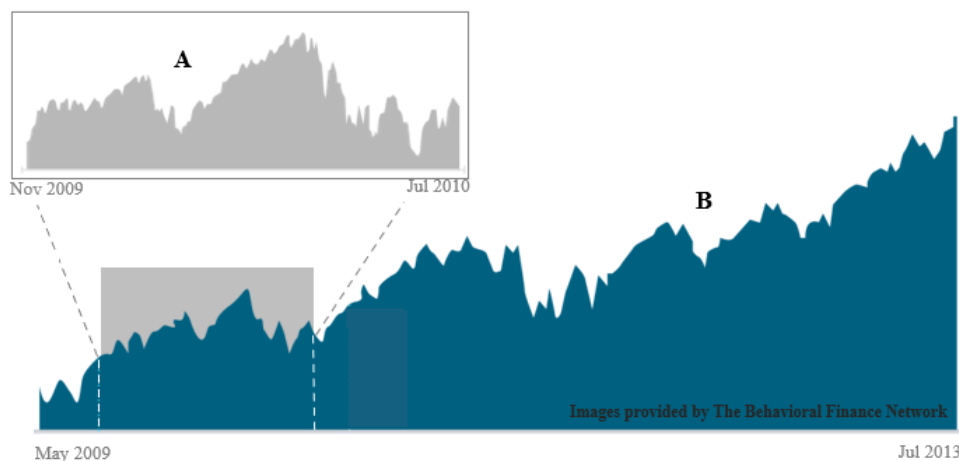
Virtue of Not Looking

We cannot control the volatility of the market, but we can control how much volatility we experience – it is a function of how often we look. The stock market, by nature, is volatile. **The more often we look, the more often we experience its volatility, as depicted below.**

Given the choice, would you rather choose Andrew's Portfolio (A) or Ben's Portfolio (B)?



Naturally, one chooses Ben's Portfolio (B). However, under closer review (chart below), we can see that Andrew's Portfolio (A) is simply a 9-month segment of Ben's Portfolio (B).



Focusing on every daily up and down market movement, experiencing the emotional roller coaster by “tuning-in” too much, one may be influenced to sell what would have been a very profitable longer-term investment.

As of October 27th, 2018, the stock market was roughly flat for the year. If you had gone into hibernated January 1st, you would have thought basically nothing had transpired. You missed the melt up in January, correction in February, concerns about a trade war this summer and the volatility in October.

Not looking is not easy, though it’s a desirable trait. If you don’t see the volatility, you don’t feel it!

Maintain Proper Perspective

Assuming we are unable, or simply choose to look at the market’s constant movements, we can lessen its effects on us by maintaining the proper perspective.

No one is immune to emotions nor concerns about uncertainty. However, experience tells us, that keeping the right perspective can have significant financial benefits. The following three realities help keep the right perspective:

1. The media’s job is to get us to tune in, not to make good decisions. Headlines and news stories are simply their means to the end.
2. Short term performance is not an indicator of the wisdom or success of a strategy (or the lack thereof). Short term performance is simply an indication of variability in asset prices.
3. Investors seldom fall short of financial goals by following a disciplined long-term investment strategy. In fact, deviating from your long-term plan tends to increase the likelihood of *not* reaching goals.

Designing portfolios for growth is important, however, managing portfolios to mitigate downside risk, we believe, can be even more important when it comes to helping you stick to your long-term plan.

This commentary was composed by Steven W. Lieberman and The Behavioral Finance Network. Steven W. Lieberman is the founder and Senior Managing Director of The Private Client Group Wealth Management, LLC. Investment advisory and financial planning services are offered through Summit Financial, LLC, an SEC Registered Investment Adviser ("Summit"). 4 Campus Drive, Parsippany, NJ 07054. Tel. 973-285-3670. Securities brokerage offered through Purshe Kaplan Sterling Investments, Member FINRA/SIPC. Headquartered at 18 Corporate Woods Blvd., Albany, NY 12211 ("PKS"). PKS and Summit are not affiliated companies.

This commentary is for informational and educational purposes only and does not constitute legal or professional advice. The views and opinions expressed in this commentary are those of the author(s) and do not represent official policy of Summit or PKS. Past performance and/or historical data points does not guarantee future outcomes nor is this intended to be an indication of future trends. 20181129-987