Weathering Volatile Markets

A sudden change in the stock market can trigger a series of uncomfortable thoughts and emotions for those with retirement savings in the stock market, whether through a 401(k), an IRA, a 403(b) or any other investment vehicle. Consider the following steps you should be taking in both up and down markets:

1. MARKET DECLINES ARE NORMAL

While unsettling, it's important to remember that market declines are a normal part of the investing cycle. Since 1951, the Dow has seen declines of 5% or more about three times a year. Declines of 20% or more occur about once every six years.

Type of decline	Average frequency[1]	Average length[2]	Last occurrence[3]
5% or more	About 3 times a year	43 days	October 2021
10% or more	About once a year	110 days	September 2020
15% or more	About once every 3 years	251 days	March 2020
20% or more	About once every 6 years	370 days	March 2020

Past results are not predictive of results in future periods.
Source: Capital Research and Management Company℠
[1]Assumes 50% recovery rate of lost value.
[2]Measures market high to market low.
[3]Source: capitalgroup.com/individual/pdf/shareholder/mfgebr-051_recovrbr.pdf

2. BUILD A FOUNDATION

Building a robust foundation involves a strategy consisting of three factors: your timeline, your long-term goal and your risk tolerance. Your timeline involves knowing the number of years you have left working before you retire.

Your long-term goal is understanding how much money you need to save to live comfortably in retirement. Risk tolerance takes into account your entire financial situation and consists of your debt, income and savings. Having the whole picture will help you fine tune your approach and decide how aggressive or conservative it should be.

3. MIX IT UP

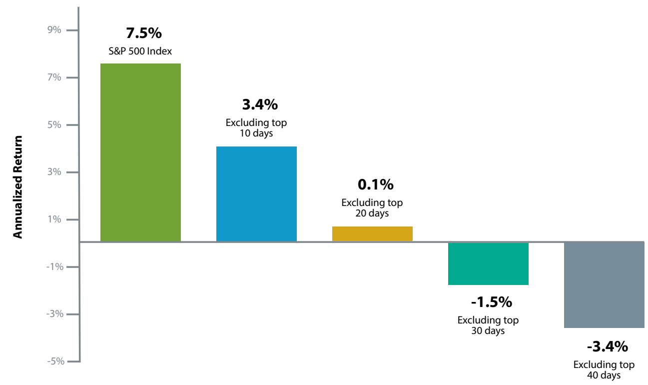
When crafting your investment strategy, consider investing across three different asset classes: stocks, bonds, and short-term investments. Diversifying your investments across these different asset classes can protect you during a market downturn as well as mitigate risk.

4. SET A PLAN AND STICK TO IT

Having, and sticking to, a plan during the market's ups and downs is ideal. Consider your timeline, your long-term goals and your appetite for risk. If watching current market fluctuations proves to be too stressful, it might indicate a need to adjust your portfolio to take on a more conservative risk posture.

5. DON'T TRY TO PREDICT THE MARKET

The truth is nobody can predict the market, not even experts. Unfortunately, this doesn't stop investors from thinking they can make informed decisions based on unfounded hunches or rumors. The chances of you missing the market are extremely high without knowing exactly when to buy or sell since the market's gains occur within short, sporadic time frames of only a few days. To be able to benefit from those strong market days and the long-term performance of the market, your investment strategy should be geared toward the long run. That means keeping your investments throughout the market's ups and downs.



Six of the best 10 days occurred within two weeks of the 10 worst days. Through 2020, seven of the best days occurred within just one week of the worst day.

Annualized Return S&P 500 Index (TR) 2001-2020

Source: Bloomberg as of 12/31/2020. Past performance is no guarantee of future results.

6. KEEP THE FUTURE IN MIND

As unsettling as market downturns are, history is on your side. Historically, stocks recover and deliver long-term gains. While it's tempting to impulse buy at market highs or panic sell at market lows, maintaining perspective and remaining focused on long-term strategies are the keys to weathering any market volatility. To calm the nerves caused by short-term volatility, don't lose sight of the future. For many, this involves controlling how often they check account balances for a while.

7. APPROACH A PROFESSIONAL

Talking to a financial advisor can help you make the most of a down market. Meeting with a financial advisor can provide helpful insight on properly adjusting your investment mix or capitalizing on opportunities when prices are low. If you're unsure about your strategy or want to put one in place, now is the time to meet with a financial advisor.

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