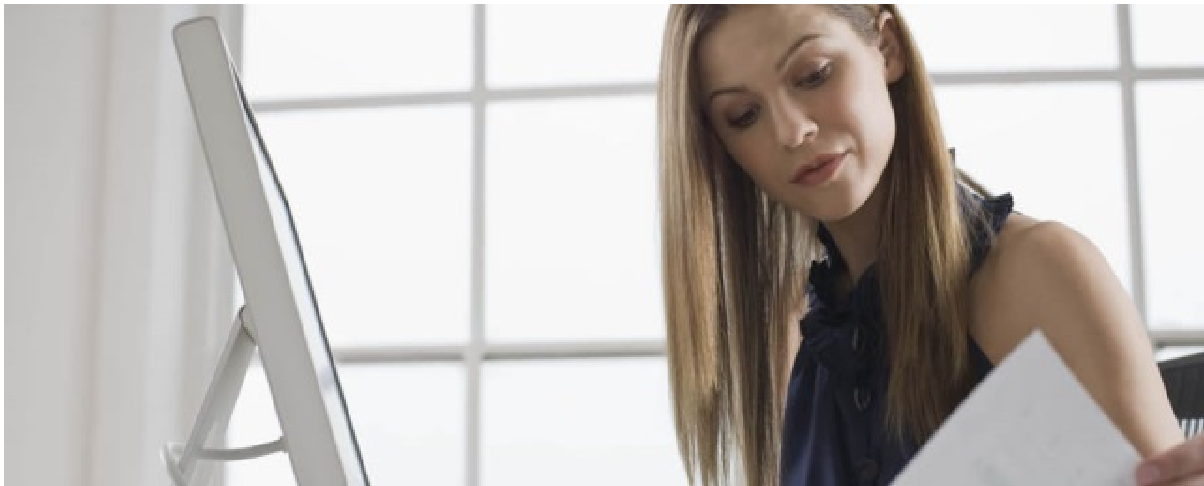
FIDELITY VIEWPOINTS®

Six strategies for volatile markets

When markets get choppy, it pays to have a plan for your investments, and to stick to it.

by Fidelity Viewpoints – 01/15/2016



The markets have become volatile once again, as concerns about China's economy add to fears of a global economic slowdown. Add to that volatility in oil prices, changes in the relative strength of currencies, and expectations that the U.S. Federal Reserve will gradually raise interest rates, and the result is uncertainty in the markets.

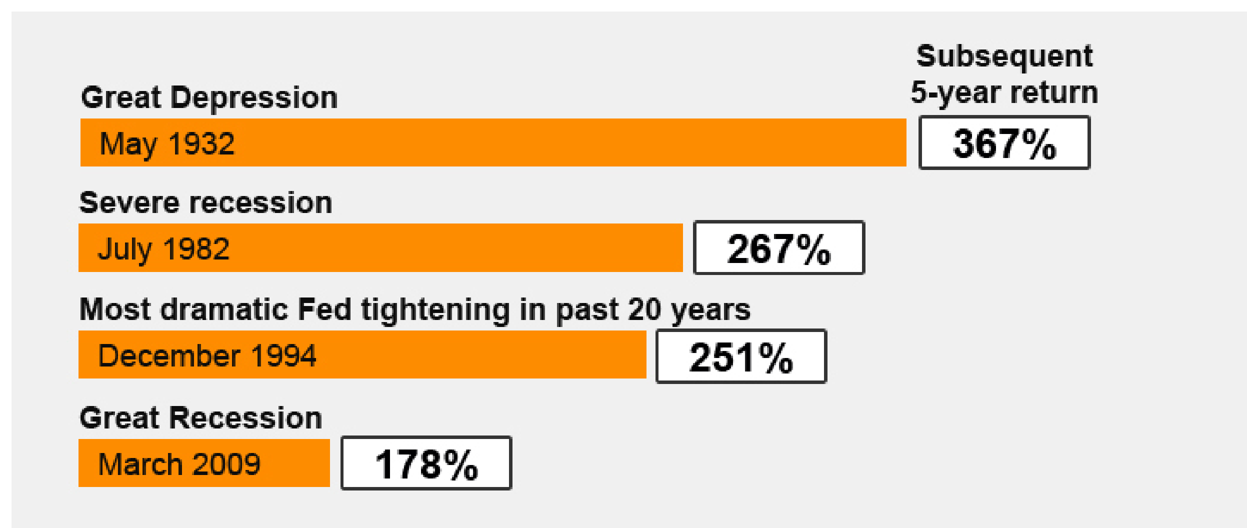
"Nothing causes investors to question their strategy and worry about their money like dramatic moves in the markets," says John Sweeney, Fidelity executive vice president of retirement income and investment strategies. "A natural reaction to that fear might be to reduce or eliminate any exposure to stocks, thinking it will stem further losses and calm your fears, but that may not make sense in the long run."

Plan for volatility

1. Market downturns happen frequently, and have typically been followed by recoveries.
2. Trying to time the market has proven challenging and could cost you.
3. A plan that aligns your investment risk with your goals and situation may help you cope with volatility.
4. You may want to consider a professionally managed solution.

In fact, what seemed like some of the worst times to get into the market turned out to be the best times. The best five-year return in the U.S. stock market began in May 1932—in the midst of the Great Depression. The next best five-year period began in July 1982 amid an economy in the midst of one of the worst recessions in the post-war period, featuring double-digit levels of unemployment and interest rates.

It has paid to stay invested in U.S. stocks during troubled times.



U.S. stock market returns represented by total return of S&P 500® Index. **Past performance is no guarantee of future results.** It is not possible to invest in an index. First three dates determined by best five-year market return subsequent to the month shown. Sources: Ibbotson, Factset, FMRCo, Asset Allocation Research Team as of March 31, 2015.

What does this mean? It may not be prudent to bail out of the market when it is volatile. What is appropriate: Be prepared.

"Market volatility should be a reminder for you to review your investments regularly and make sure you have an investment strategy with exposure to different areas of the markets—U.S. small and large caps, international stocks, investment grade bonds—to help match the overall risk in your portfolio to your personality and goals," says Sweeney.

Here's how.

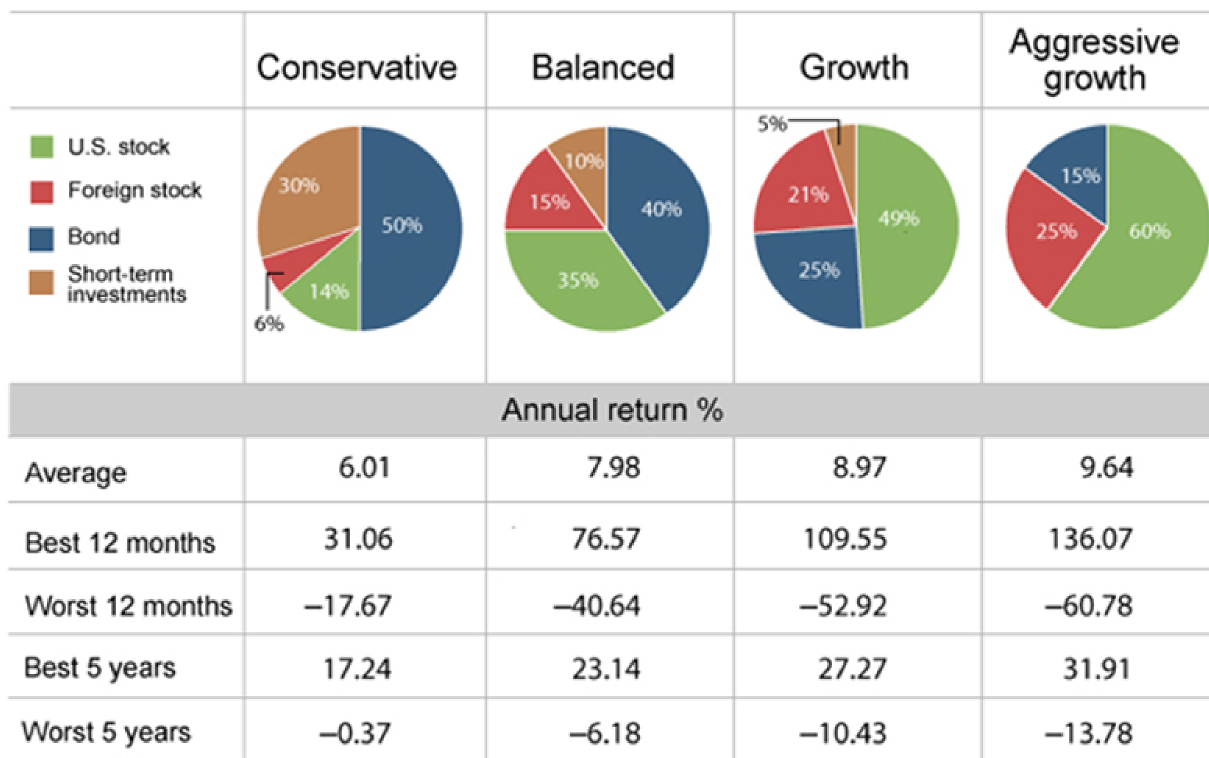
1. Have a strategy.

Your time horizon, goals, and tolerance for risk are key factors in helping to ensure you have an investment strategy that works for you. Your time horizon is the amount of time you can keep your money invested. Your tolerance for risk should take into account your broader financial situation such as your savings, income, and debt—and how you feel about it all. Looking at the whole picture can help you determine if your strategy should be aggressive, conservative, or somewhere in between.

2. Be comfortable with your investments.

If you are nervous when the market goes down, you may not be in the right investments. Even if your time horizon is long enough to warrant an aggressive portfolio, you have to be comfortable with the short-term ups and downs you'll encounter. If watching your balances fluctuate is too nerve-racking for you, think about re-evaluating your investment mix to find one that feels right. But be wary of being too conservative especially if you have a long time horizon because more conservative strategies may not provide the growth potential you need to achieve your goals. Set realistic expectations, too. That way it may be easier to stick with your long-term investment strategy.

Choose an investment mix you are comfortable with.



	Conservative	Balanced	Growth	Aggressive growth
U.S. stock	14%	35%	49%	60%
Foreign stock	6%	15%	21%	25%
Bond	50%	40%	25%	15%
Short-term investments	30%	10%	5%	
Annual return %				
Average	6.01	7.98	8.97	9.64
Best 12 months	31.06	76.57	109.55	136.07
Worst 12 months	–17.67	–40.64	–52.92	–60.78
Best 5 years	17.24	23.14	27.27	31.91
Worst 5 years	–0.37	–6.18	–10.43	–13.78

Data Source: Ibbotson Associates, 2015 (1926–2014). **Past performance is no guarantee of future results.** Returns include the reinvestment of dividends and other earnings. This chart is for illustrative purposes only. It is not possible to invest directly in an index. For information on the indexes used to construct this table, see footnote 1.

3. Diversify.

One of the most important things you can do to help manage the risk of volatile markets is to diversify. While it won't guarantee you won't have losses, it can help limit them. It was put to the test during the extreme market volatility in 2008.

Look at the performance of three hypothetical portfolios: a diversified portfolio of 70% stocks, 25% bonds, and 5% short-term investments; a 100% stock portfolio; and an all-cash portfolio (see chart below).

By the end of February 2009, both the all-stock and diversified portfolios would have declined. But diversification would have helped reduce losses compared with the all-stock portfolio.

Now look at what happened when the market recovered. Our hypothetical all-stock portfolio would have risen the most, followed by the diversified portfolio, and then all cash. This is a good example of how such portfolios can behave in rising markets. If the market continues its upward trend, the diversified portfolio might gain less than the all-stock portfolio but more than the all-cash portfolio. Diversification can help to manage the risk level of the portfolio.

Diversification has helped to smooth out market volatility.

	Jan. 2008 through the market bottom, Feb. 2009.	Five years from the bottom: Mar. 2009–Feb. 2014	2008 to five years from bottom: Jan. 2008–Feb. 2014
All-cash portfolio	**1.6%**	**0.3%**	**2.0%**
Diversified portfolio	**–35.0%**	**99.7%**	**29.9%**
All-stock portfolio	**–49.7%**	**162.3%**	**31.8%**

Source: Strategic Advisers, Inc. Hypothetical value of assets held in untaxed accounts in an all cash portfolio; a diversified growth portfolio of 49% U.S. stocks, 21% international stocks, 25% bonds, and 5% short-term investments; and all stock-portfolio of 70% U.S. stocks and 30% international stocks. This chart's hypothetical illustration uses historical monthly performance from January 2008 through February 2014 from Morningstar/Ibbotson Associates; stocks are represented by the S&P 500 and MSCI EAFE Indexes, bonds are represented by the Barclays U.S. Intermediate Government Treasury Bond Index, and short-term investments are represented by U.S. 30-day T-bills. Chart is for illustrative purposes only and is not indicative of any investment. **Past performance is no guarantee of future results.**

So how do you diversify? First, consider spreading your investments among at least the three core asset classes—stocks, bonds, and short-term investments. You may also want to include other assets, like real estate securities, which are not always closely correlated with the core asset classes. Then, to help offset risk even more, diversify the investments within each asset class.

4. Do not try to time the market.

Attempting to move in and out of the market can be costly, particularly because a significant portion of the market's gains over time have tended to come in concentrated periods. Many of the best periods to invest in stocks have been those environments that were among the most unnerving. Investors face long odds in trying to time the ups and downs of the market, and Fidelity data shows they tend to increase their allocations to stocks ahead of downturns and decrease their exposure just prior to market rallies.

Trying to time the market can cost you.

Hypothetical growth of $10,000 invested in the S&P 500 from Jan. 1, 1980 to March 31, 2015.

Past performance is not a guarantee of future results. The hypothetical example assumes an investment that tracks the returns of the S&P 500® Index and includes dividend reinvestment but does not reflect the impact of taxes, which would lower these figures. There is volatility in the market and a sale at any point in time could result in a gain or loss. Your own investment experience will differ, including the possibility of losing money. You cannot invest directly in an index. The S&P 500®, a market capitalization–weighted index of common stocks, is a registered service mark of the McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation. Source: FMRCo, Asset Allocation Research Team as of 3/31/15.

5. Invest regularly despite volatility.

If you invest regularly over months, years, and decades, you can actually benefit from a volatile market. Through a time-proven investment technique called dollar cost averaging, you invest a set amount every week, month, or quarter, regardless of how the market's doing. Over the years, you'll buy shares of each investment at varying price levels. As a result, the average price per share of your investments may be lower than if you invested all your money at once. More importantly, you avoid the temptation of trying to time the market. (Periodic investment plans do not ensure a profit or protect against a loss in a declining market.)

6. Consider a hands-off approach.

To help ease the pressure of managing investments in a volatile market, you may want to consider an all-in-one fund or professionally managed account for your longer-term goals such as retirement. These funds provide diversification with exposure to various asset classes and investment styles in a single fund, with the added benefit of professional asset allocation.

The bottom line

Rather than focusing on the turbulence, wondering if you need to do something now, or what the market will do tomorrow, it makes more sense to focus on developing and maintaining a sound investing plan. A good plan will help you ride out the peaks and valleys of the market, and may help you achieve your financial goals.

Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges, and expenses. For this and other information, call or write Fidelity for a free prospectus or, if available, a summary prospectus. Read it carefully before you invest.

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Past performance is not a guarantee of future results.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

In general, the bond market is volatile, and fixed-income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed-income securities also carry inflation risk and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible. Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

Changes in real estate values or economic conditions can have a significant positive or negative effect on issuers in the real estate industry, which may affect your investment.

The S&P 500 Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

The Dow Jones Wilshire 5000 is a market capitalization-weighted index of approximately 7,000 stocks.

The Barclays Capital Global Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar denominated.

MSCI EAFE (Europe, Australasia, Far East) Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. & Canada.

1. Historical returns for the various asset classes are based on performance numbers provided by Ibbotson Associates in the Stocks, Bonds, and Inflation (SBBI) 2001 Yearbook (annual update work by Roger G. Ibbotson and Rex A. Sinquefield). Domestic stocks are represented by the S&P 500® Index, bonds are represented by U.S. intermediate-term government bonds, and short-term assets are based on the 30-day U.S. Treasury bill. Foreign equities are represented by the Morgan Stanley Capital International Europe, Australasia, Far East Index for the period from 1970 to the last calendar year. Foreign equities prior to 1970 are represented by the S&P 500® Index.

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