UBS

Volatility

What can you do about it?

Whether or not you're familiar with the term, there's a good chance you've felt the sways of volatility—it is (and always has been) a normal part of investing. But as you listen to news about the rising number of COVID-19 cases and watch your investments move in response, the question may be creeping up again: Is there anything you could be doing?

What is volatility?

In the simplest terms, volatility measures how often the value of an investment fluctuates in price *and* by how much. Low volatility means small changes and high volatility means large ones. And though it's to be expected—especially for long-term goals like retirement—knowing how to stay the course during these times can be challenging.

Up today, down tomorrow

Markets—both stock and bond—move in three directions: up, down or sideways. (Yes, sideways too, meaning it's fairly steady.) The markets lately have been bumpy. And yes, it has something to do with COVID-19.

Understandably, this can create some uncertainty about where all this is heading and the potential effects it might have on your financial life. Volatility even affects retirement portfolios, so when the markets feel "off," investors can kind of feel "off" too. This may lead you to think that stashing money under your mattress is safer than investing it. But is that the right approach?

5 actions to consider before making any (big) moves

1. Check in on your long-term plan

Sticking with your plan is easier said than done when the markets are acting up. But try to tune out the noise and keep your long-term perspective in mind. If you have a plan, it's a good idea to revisit it right now. If you don't have a plan, now might be time to get one.

2. Take some of the emotion out of investing

Sure you'll need to sort out how these events influence your long-term goals, but try to keep your emotions in check. Before making any hurried changes to your investments, consider if this health scare changes any of your financial goals. If it doesn't, changing your plan may not be the right move.

3. Reassess your risk tolerance

While risk and volatility are closely related, they are not the same thing. Risk is the likelihood of losses relative to the anticipated return on an investment. Many investors are now wondering how comfortable they *really* are with risk when it comes to their money. If you're staying up at night worrying about the markets, it might be a signal that your risk tolerance isn't what you thought it was. Now might be a good time to align your investments to your actual risk tolerance.

4. Hold investments that zig when others zag

Diversification is an approach to help manage risk over the long term. A well-diversified portfolio includes a variety of asset classes that don't always move together. Though it's not a guarantee, it can help you feel more grounded during market fluctuations. So the result (for example) would be that extremely good returns in one asset class may be tempered by modest or negative returns in another. Remember diversification, or asset allocation, is a long-term strategy. The idea is to stick with it through the inevitable stock market ups and downs—reassessing as necessary and rebalancing when appropriate.

5. Continue to contribute to your retirement plan

While it may not be obvious to invest during times of uncertainty, volatile markets can present opportunities for long-term investors. Dollar-Cost Averaging (DCA) can help. DCA involves investing small amounts in a fund, or funds, on a regular basis rather than trying to time the market and investing a large amount all at once. As a participant in a retirement savings plan, you automatically benefit from DCA. You likely contribute to your plan every pay period whether the market is up or down. During times of volatility, it is important that you continue to save for your retirement and even take advantage of down markets. When prices of the stocks in your fund's portfolio are down, your contribution buys more shares.

It's important to understand the difference between pain and damage when it comes to your portfolio. There's no doubt losses can be painful, but attempting to avoid this pain by being too conservative and veering from your long-term plan could have a more damaging impact.

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2020-252502
Exp.: 03/31/2021, IS2001642