Patience, Perspective and Planning Drive Performance Not Headlines

October 2018

When it comes to long-term performance, there are "3 P's" that investors must always remember: **Patience, Perspective and Planning**.

U.S stock markets have taken investors for a wild ride thus far in October. Major indices started the month with several days downward and have alternated, sometimes wildly, between green and red days for the past couple of weeks.

It's during times like these that investors can be most vulnerable. Crafty television producers frantically create graphics intended to grab people's attention and fan Americans' fears in order to keeping them tuned in. However, the only true "breaking news" is that many Americans may be poised to make poor investment decisions.

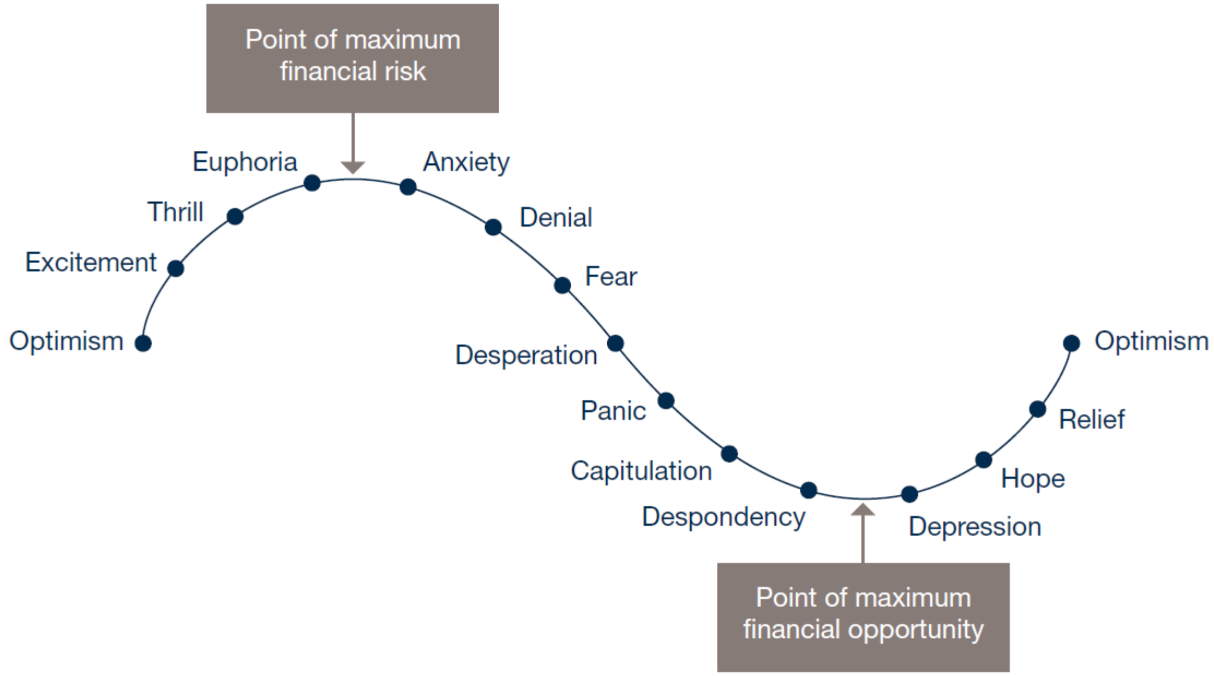
When it comes to long-term performance, there are "3 P's" that investors would be well served to remember: **Patience, Perspective and Planning**.

Being Patient and Understanding Emotions

Just like the markets, our emotions tend to fluctuate up and down on a regular basis. Having an understanding of the role that emotions play in the market cycle can provide much needed patience when the events of the day take us on an emotional roller coaster. In fact, there are many emotions along the cycle of market emotions.

In the early stages of a market cycle or an investment, investors are filled with optimism, excitement and even euphoria – "Wow, I feel great about this investment."

Cycle of Market Emotions



As the market goes up, investor emotions become increasingly positive until they peak with a feeling of euphoria when returns are highest. When markets dip and investment values drop along with them, uncertainty can make investors feel nervous and anxious.

Investors often quickly regain confidence in their long-term investment strategy if the market rebounds. However, investors can feel increasingly fearful of losses and unsure of “how far the market will fall” if volatility or a downward slide continues for too long.

This is the moment when emotions guide investors swiftly in the wrong direction. Feelings of depression and desperation may lead them to rethink their risk tolerance and panic them into throwing in the towel when their portfolio is worth the least.

This can be a costly mistake. Research from DALBAR’s 2018 Quantitative Analysis of Investor Behavior shows that the average American investor has grossly underperformed the broader market and other assets classes over the past 20 years – just 2.58 percent for the “Average Investor” compared to 7.20 percent for the S&P 500, 4.98 percent for bonds and even 3.40 percent for homes.[1]

As the market recovers and returns to its baseline, investors will then often regain the optimism that marks the moment when it’s time for the next cycle to begin.

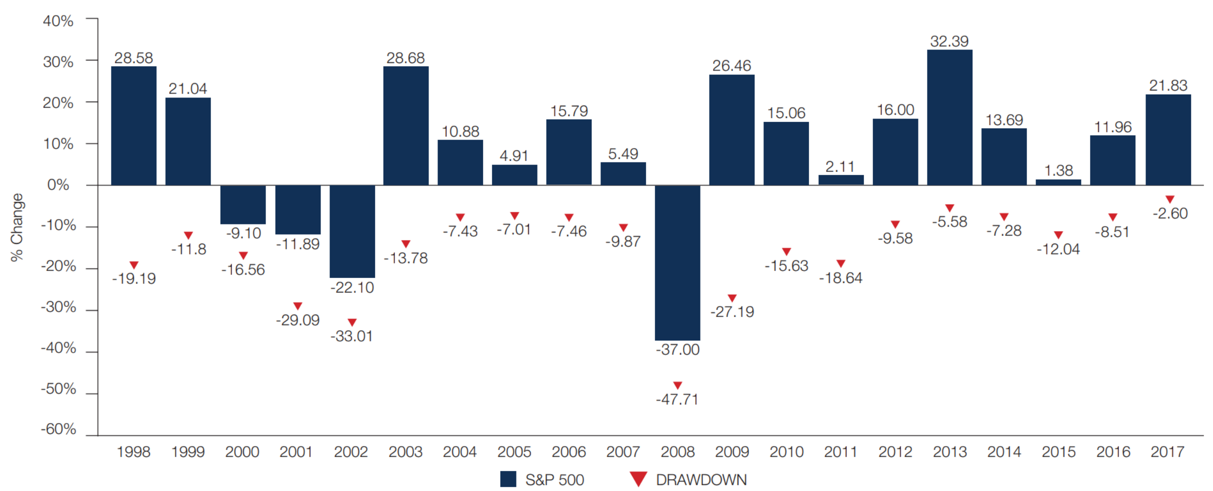
As you ride this emotional roller coaster, it's important to remember the inverse relationship between feelings and investment opportunities at the peak and valley of the market cycle.

Critical Perspective and Expected Volatility

With a clear understanding of our emotions, we can establish critical perspective on market volatility. Despite what you may hear from television pundits, there's no magic formula to predict a market correction. However, there *is* a simple way investors can prevent volatility from leading them to make bad investment decisions – that is to expect it. Nearly all investors with long-term investment plans carry some exposure to stocks and it's important for investors to understand that equity returns can be quite volatile from time-to-time.

In fact, short-term dips and spikes, even double-digit ones, are common for stocks. This chart helps to illustrate the level of volatility that can be expected – even in "good" years.

Measuring the Market's Ups and Downs



Data Source: Morningstar, January 2018

Assumes reinvestment of dividends and no taxes. Past performance is not indicative of future returns.
S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. The index is unmanaged and not available for direct investment.

As you can see, only in two of the past 20 years did the market not drop more than 7 percent at some point during the year. In fact, the market experienced a 10-percent or more intra-year drop in 11 of the past 20 years.

When it comes to their long-term investing portfolios, it's important for investors to expect significant drops in value to occur every single year. In many cases, this is simply the price to pay to potentially capture the long-term returns that will enable you to sustain the power of choice in your retirement.

Planning Ahead to Seize Opportunities

The final and most important thing to remember is – we've planned for this. What happens in markets today, this week or this month can only impact investors' long-term plans if they allow it to draw them off course. In most cases, market volatility provides opportunities for:

- **Tax/Loss Harvesting:** Strategically "harvest" investment losses to offset capital gains which can reduce this year's tax bill while increase an investment portfolio's prospects for long-term financial health.
- **Portfolio Rebalancing:** Volatility often creates a chance to realign asset allocations and "take profits off of the table" by selling positions that have appreciated over time and buying others that may be trading below their intrinsic value.
- **Put New Money to Work:** In many situations, long-term investors can even take advantage of this market cycle of emotions and add additional shares to their portfolios when prices are at their lowest.

Whether the market volatility continues into next month or even next year, the wise investor ignores the herd and "stays the course."

[1]Source: DALBAR QAIB 2018

Disclosures:

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Asset allocation/diversification of your overall investment portfolio does not assure a profit or protect against a loss in declining markets.

Past performance is no guarantee of future results. Index performance does not reflect the deduction of any investment-related fees and expenses. It is not possible to invest directly in an index.

The indices used for stocks is the S&P 500 Index; for bonds is the Bloomberg Barclays US Aggregate Bond TR USD Index; and for homes is the National Association of Realtors Annual US Housing Existing Single-Family Sales (Median Sale Prices). DALBAR's definition of the Average Investor: Average asset allocation investor return is based on an analysis by Dalbar, Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending Dec. 31, 2017, to match Dalbar's most recent analysis.

The S&P 500 Index is widely regarded as the best single gauge of large-cap domestic equities. Created in 1957, this world-renowned index includes 500 of the top companies in leading industries of the U.S. economy. It captures approximately 80-percent coverage of available market capitalization of the U.S. stock market.