Wealth Management Insights

Guide to market volatility

Navigating the ups and downs of the market

Eagle Strategies LLC

PROTECTION. RETIREMENT. INVESTMENT. ESTATE.
Trusted Guidance. Comprehensive Solutions.

At a Glance

What is market volatility?

Market volatility describes the frequent changes in value for a specific investment or financial market and is often synonymous with short-term fluctuations in price or worth. If a security experiences a high degree of change in its value, it might be considered highly volatile—and riskier. On the other hand, securities that rarely experience changes in value are considered to be less risky because they realize lower volatility.

There are a number of factors that contribute to market volatility—economic growth, inflation, geopolitical events, monetary policy, etc. And no one knows for sure the effect these factors may have on the financial markets or how long the volatility may last.

When investing, it's essential to accept the fact that eliminating volatility is nearly impossible, and it will always be a part of the financial markets. But reducing or balancing riskier investments with safer, lower-risk investments may help create a more stable overall investment portfolio.

Constant

Volatility is the pulse of the market

If the financial markets have taught us anything over the long term, it is that upward markets are often followed by corresponding downward markets, and vice versa. It's called volatility, and it always has been, and always will be, the pulse of the market.

1 Down markets may present buying opportunities

Market swings are common and can be unnerving, but down markets may present buying opportunities. Buying while prices are low may allow investors to reap the rewards later.

2 Manage volatility through effective management and planning

The keys to weathering market volatility include maintaining realistic return expectations, taking a long-term investment approach, avoiding market timing, and diversifying your assets.

3 Maintain a focus on long-term goals

By learning how to navigate the ups and downs of the market, you can put market volatility into better perspective to help remain focused on your long-term goals.

Opportunity

1 Down markets may present buying opportunities

View market volatility as a potential opportunity

Stay focused on your long-term plan

Without a plan, investors are prone to making knee-jerk reactions when there are swings in the market. A well thought out investment strategy can provide the guidance needed to help you stay on track when inevitable market fluctuation occurs. It can also point you toward the types of investments that best align with your financial goals. By maintaining a clear purpose for your investment strategy, you help yourself stay on track and confidently navigate the ups and downs of the market.

When developing your investment strategy, consider the following factors:

- **Your investment goals.** Specifically, for what or whom are you accumulating funds? Your investment goals will help you determine suitable investments.
- **Your time horizon.** How many years will it be until you need to use what you have invested? Longer-time horizons may provide flexibility for more aggressive investment choices.
- **Your tolerance for risk.** Take your broader financial situation into account and consider how comfortable you are with varying degrees of risk as you pursue your investment goals.

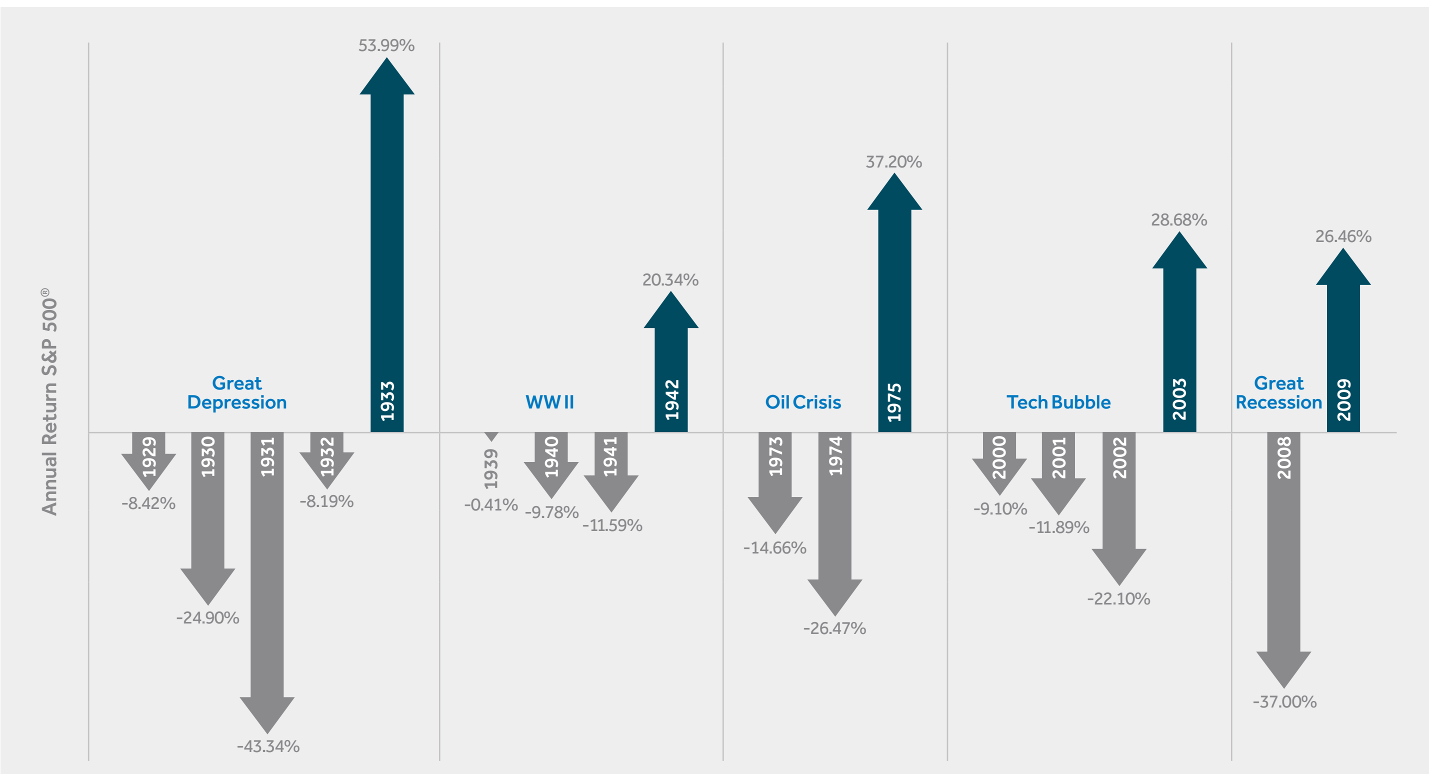
Market swings are common and can be unnerving, but there is a silver lining. Down markets may present many buying opportunities for investors. Buying while prices are low may allow you to reap the rewards later.

Investing means staying the course, especially during times of short-term market volatility

Volatility is a natural occurrence in the market. One of the keys to successful investing is to not overreact to it. In fact, despite periodic downturns, the financial markets have tended to rise over the long term. And even though some downturns have been severe, they seldom lasted for more than a year.

Since the beginning of the stock market, there have only been four times that the Standard & Poor's 500® Index (S&P 500®) was negative two or more years in a row. Looking at these historic downturns in the S&P 500®—the Great Depression, World War II, the Oil Crisis, and the Tech Bubble—you can see that prolonged down markets were not typical and tended to be followed by a period of growth.

Uncommon Bear Markets Have Led to Growth Opportunities[1]



Past performance is no guarantee of future results.

1. Source: Morningstar, 12/31/15. This information is for illustrative purposes only and is not indicative of any investment. The Standard & Poor's 500® Index is an unmanaged index considered to be representative of the U.S. stock market in general. Prices of common stocks will fluctuate and may involve loss of principal when redeemed. The National Bureau of Economic Research was used for the recessionary period information. An investor cannot invest directly in an index.

Perspective

2 Manage volatility through effective management and planning

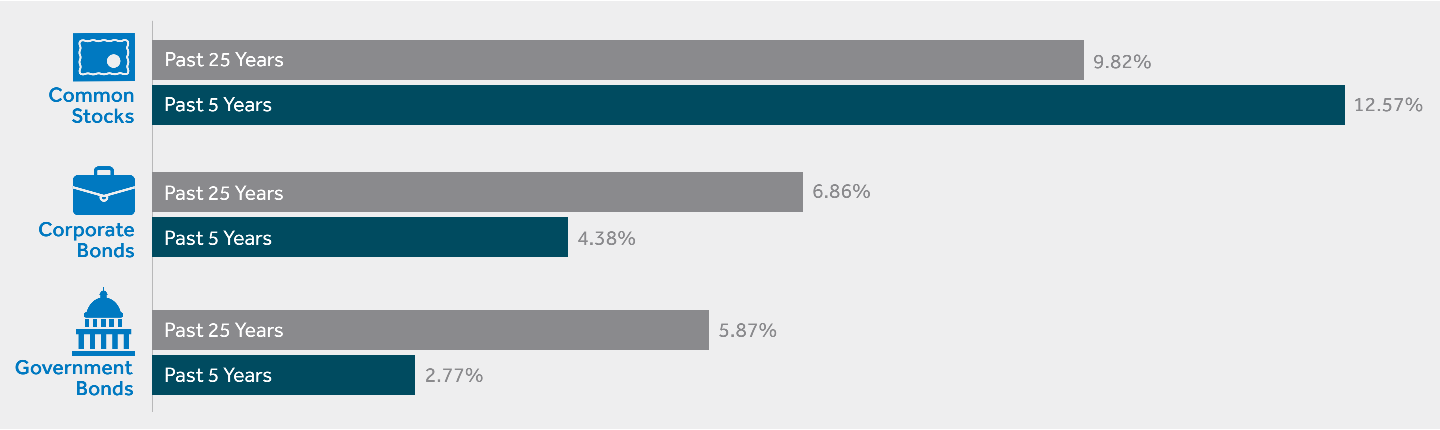
Pursue long-term objectives with time-tested strategies

Fortunately, there are a number of time-tested strategies that may help you deal with market volatility. Two of the most prevalent are: invest for the long term and maintain realistic performance expectations when it comes to returns. Coupling these strategies with maintaining proper portfolio diversification and avoiding the pitfalls of market timing, you'll have the foundation needed to help manage your overall exposure to market volatility.

Maintain realistic expectations about returns

Historically, the stock market has been up more than down. Often after a lengthy bull market, some people lose sight that their investments could generate negative returns. In order to keep market volatility in perspective, it's important to maintain realistic expectations about your investments, especially if returns move closer to their historical average.

Historical Performance of Various Investments[2]



Past performance is no guarantee of future results.

The value of equity investments is more volatile than the other securities. Government bonds are guaranteed as to the timely payment of principal and interest.

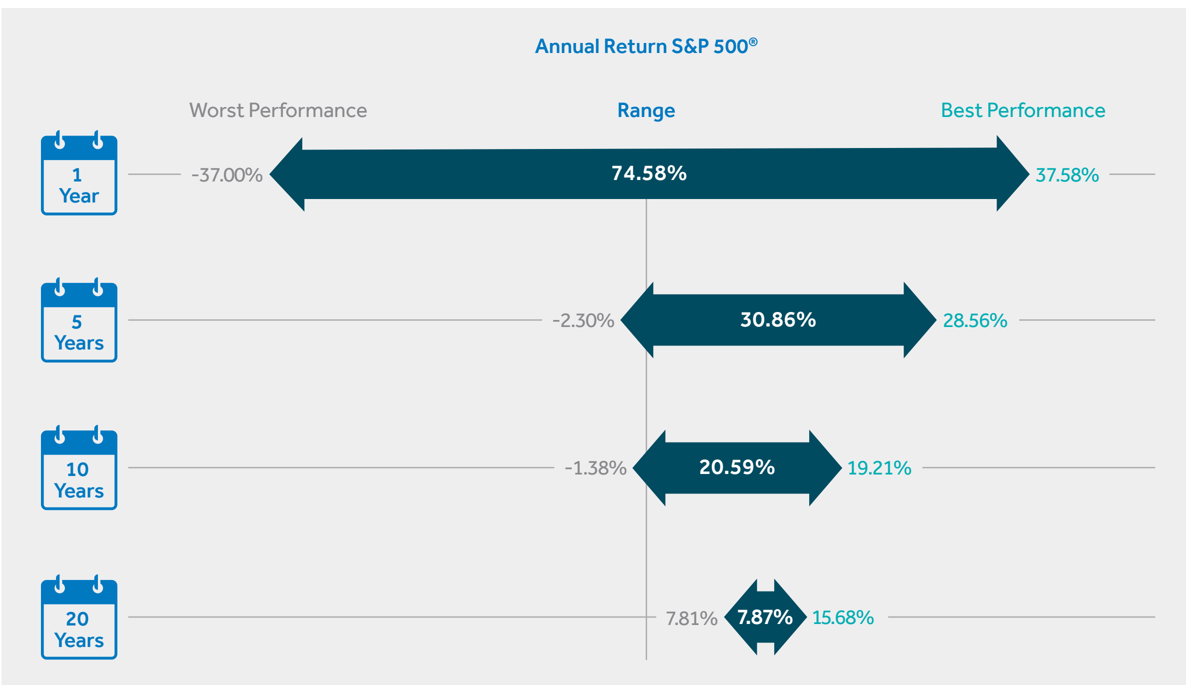
2. Source: Morningstar, 12/31/15. Common stocks are represented by the Standard & Poor's 500® TR Index, an unmanaged index considered to be representative of the U.S. stock market in general. Corporate bonds are represented by the Barclays U.S. Credit TR USD Index, an unmanaged index considered to be representative of publicly issued, SEC-registered, U.S. corporate and specified foreign debentures and secured notes. Government bonds are represented by the Barclays U.S. Government TR USD Index, an unmanaged index considered to be representative of fixed-income obligations issued by the U.S. Treasury, government agencies, and quasi-funded corporations.

Take a long-term approach to investing

It's important to focus on your long-term goals and not become distracted by short-term volatility. While losing money in the financial markets is never easy to accept, remember the old adage—time is on your side. Typically, the longer a stock portfolio was held, the more likely overall positive results would have been realized.

As highlighted in the chart below, an investment during any one-year period in the stock market since 1979 would have resulted in a return of over 37% in the best year, and a loss of 37% in the worst year.[3] This gap narrows the longer you invest. The lesson here is to prepare for the long haul and try not to overreact to periods of uncertainty.

A Longer Time Horizon Has Lessened the Impact of Volatility[3]



Past performance is no guarantee of future results.

3. Source: Morningstar for the period from 1/1/79-12/31/15. Stocks are represented by the Standard & Poor's 500® Index, which is an unmanaged index considered to be representative of the U.S. stock market in general. An investment cannot be made directly into an index. Prices of common stocks will fluctuate and may involve loss of principal when redeemed. This chart is an illustration of the stock market in general, comparing best- and worst-year periods. It is for illustrative purposes only and is not representative of any investment or portfolio. The chart is based on reinvestment of income and compounded annual return. It also assumes no transaction costs or taxes.

Diversification

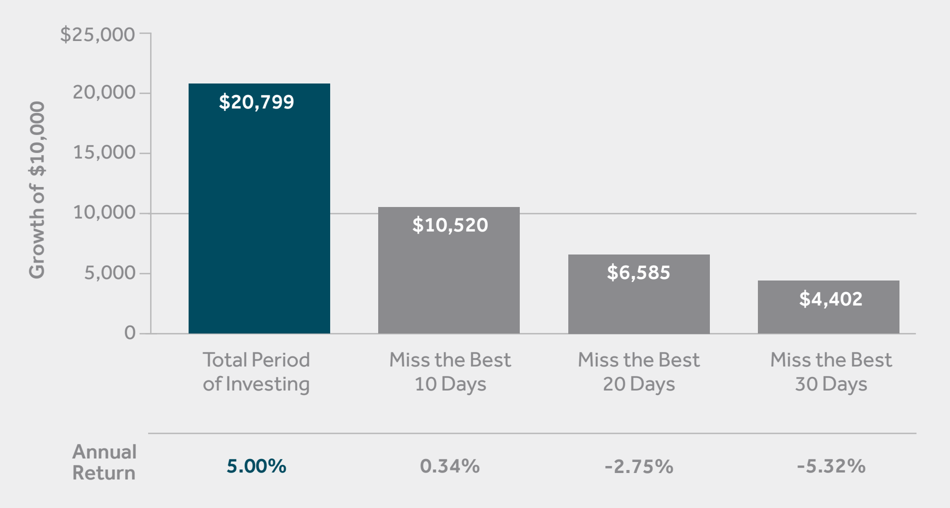
Many investors react to real or perceived financial loss with a fight or flight protection instinct and take irrational steps to exit the market. It's important to remain calm and realize that this action may be counterproductive to your long-term investment strategy.

Avoid market timing

During a volatile market, it may be tempting to sit on the sidelines and wait until the market gets better to invest. In theory, it sounds easy. But, the truth is no one can predict what the market will do a day from now, a week from now, or a year from now. That's why waiting for the perfect time to invest can be a losing proposition, especially over the short term.

Consider that if you had missed just the best 10 days of the market over the past 15 years, you would have generated a significantly lower return over that time period. That lower return is only compounded when you miss the best 20 days, the best 30 days, and so on. Is this something that you can afford to do? Probably not, which is why many financial professionals recommend that you choose sound investments that match your goals and risk tolerance and hold them for the long term.

Missing the Best Days of the Market Can Hurt Total Investment Return[4]



Past performance is no guarantee of future results.

4. Source: Standard & Poor's 500® Index, 12/31/15. Average annual returns are based on the S&P 500® Index from 12/31/00-12/31/15. Large-capitalization stock performance is measured by the S&P 500® Index, an unmanaged index considered to be representative of the U.S. stock market. Prices of common stocks will fluctuate with market conditions and may involve loss of principal when sold. Results assume reinvestment of all distributions, including dividends, earnings, and expenses, and are not indicative of any past or future returns of any investment. It is not possible to invest directly into an index.

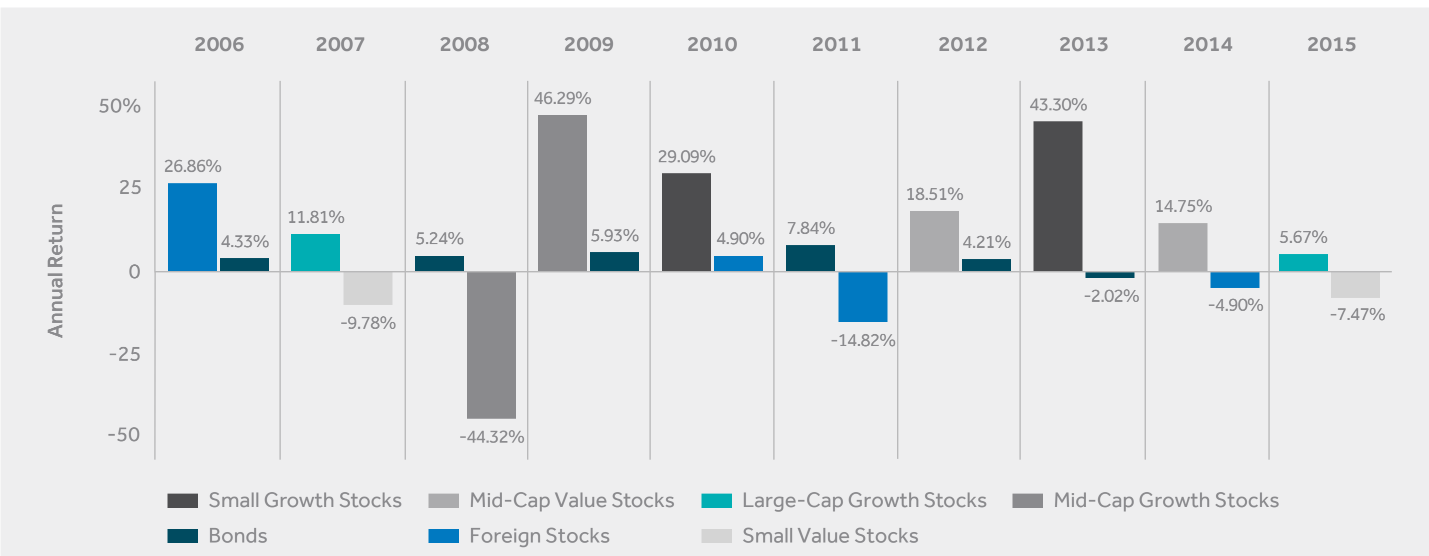
Diversify your assets

Investment options span every sector of the stock and bond markets, but allocating your assets based on performance alone is often ill-advised because the market is a moving target. One year, a particular type of security can be a star performer, only to severely underperform the very next year.

Since performance in any one asset class can be unpredictable depending on shifts in the market, investing across several asset classes can provide greater diversification potential. Therefore, if one asset class performs favorably, it can potentially offset another that is performing less favorably—providing more balance to your portfolio when market shifts occur. However, it is important to keep in mind that diversification does not guarantee a profit or ensure against a loss.

The chart below shows the fluctuating performance for various indices that represent certain asset classes, based on total annual returns.

The Best and Worst Performers Vary from Year to Year[5]



Past performance is no guarantee of future results.

5. Source: Morningstar, 12/31/15. The chart represents the fluctuating performance for various indices that represent certain asset classes based on total annual returns. Indices are unmanaged and do not represent the performance of any specific investment. One cannot invest directly into an index. Large-cap growth stocks are represented by the Russell 1000® Growth Index, an unmanaged index that measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Mid-cap growth stocks are represented by the Russell Midcap® Growth Index, an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. Mid-cap value stocks are represented by the Russell Midcap® Value Index, an unmanaged index that measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. Small growth stocks are represented by the Russell 2000 Growth® Index, an unmanaged index that measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Small value stocks are represented by the Russell 2000 Value® Index, an unmanaged index that measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. Foreign stocks are represented by the MSCI EAFE® Index, an unmanaged, capitalization-weighted index containing approximately 985 equity securities located outside the U.S. Bonds are represented by the Barclays U.S. Aggregate Bond Index, a benchmark index composed of U.S. securities in Treasury, government-related, corporate, and securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million. Stocks tend to be most volatile, whereas bonds may offer a fixed rate of return. Small-company and mid-cap growth and value stocks are more volatile than large-company growth and value stocks, are subject to significant price fluctuations and business risks, and are thinly traded. There are also additional risks associated with bonds and foreign/international investing. Foreign currency fluctuations, political and economic instability, and differences in accounting standards may apply. Bonds are subject to interest-rate risk and can lose principal value when interest rates rise.

Strategy

3 Maintain a focus on long-term goals

Invest regularly to take advantage of opportunities

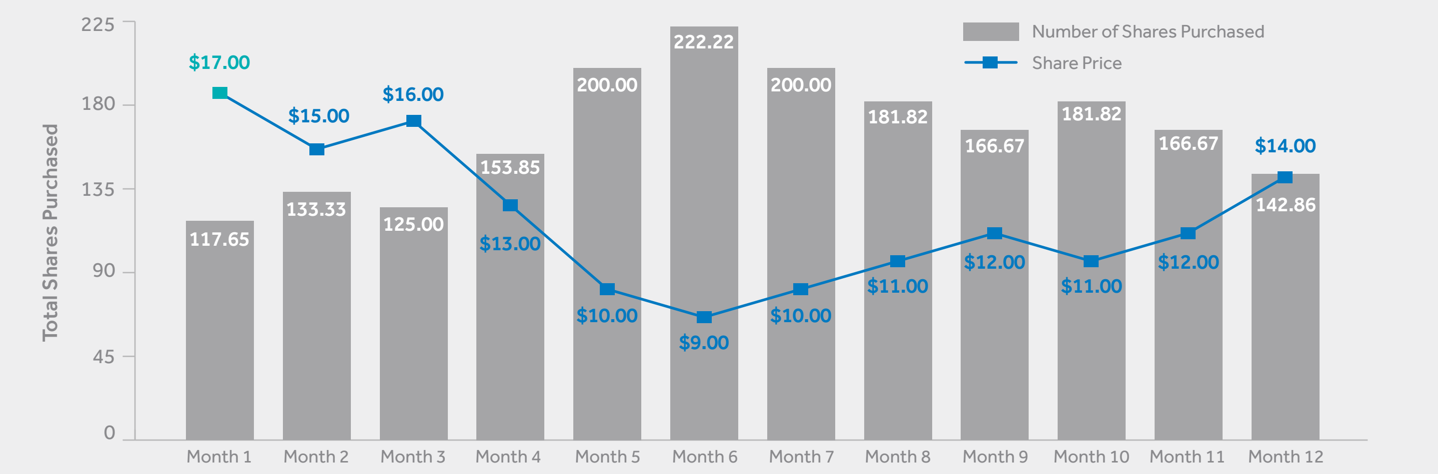
Dollar cost averaging can help take the emotion out of investing

Avoiding investing because of market volatility can jeopardize your long-term goals. A good compromise is an automatic investment plan. Consider investing a set amount of money each month by establishing systematic withdrawals from your bank account. Over time, these automatic investments can really add up. In fact, investing in a down market when prices are low can lead to potential rewards later, when prices rise. One method of periodic investing is dollar cost averaging, a way to invest over the long term by guiding you to buy more shares when prices are low and fewer when prices are high.[6]

The chart below compares two different investment strategies. As shown, an investor achieved a lower average cost per share with dollar cost averaging ($12.05 vs. $17.00) and was able to purchase 1,991.88 shares, which were 580.12 more than the single investment strategy. In the long run, this can help an investor generate additional wealth if share prices rise.

Of course, dollar cost averaging does not guarantee a profit or protect against losses in a declining market. Therefore, you should consider your ability to continue purchases through periods of low price levels.

Dollar Cost Averaging Strategy[7] vs. Single Investment Strategy



Single Investment Strategy: Investing $24,000 at one time — Total shares purchased: 1,411.76 — Average per share: **$17.00**

Dollar Cost Averaging Strategy: Investing $2,000 per month for one year — Total shares purchased: 1,991.88 — Average per share: **$12.05**

6. This approach is not for everyone. Dollar cost averaging does not assure a profit and cannot guarantee against a loss in declining markets.
7. This hypothetical example shows how dollar cost averaging may work in a down market. It is for illustrative purposes only and does not reflect the actual performance of any investment product.

Match your comfort level to your investments

As important as it is to develop a solid investment strategy, it's equally important to match your investments to your comfort level. Even if your investment goals and time horizon point to more aggressive investment options, you need to ensure that you are comfortable with the possibility of short-term fluctuations to the value of your portfolio.

If you find market downturns too nerve-wracking, work with your financial professional to review and appropriately revise your investments. But be sure to keep your investment goals in mind and be cautious about being overly conservative, especially if you don't need to access your invested funds for a long period of time.

About risk

Mid-capitalization companies are generally less established, and their stock may be more volatile and less liquid than the securities of larger companies. Bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. Stocks of small-capitalization companies may be subject to higher price volatility, significantly lower trading volumes, and greater spreads between bid and ask prices than stocks of larger companies. Small companies may be more vulnerable to adverse business or market developments than mid- or large-capitalization companies. The principal risk of investing in value stocks is that the price of the security may not approach its anticipated value or may decline in value. Growth stocks may be more volatile than other stocks because they are generally more sensitive to investor perceptions and market moves. During periods of growth stock underperformance, investment performance may suffer. Foreign securities may be subject to greater risks than U.S. investments, including currency fluctuations, less liquid trading markets, greater price volatility, political and economic instability, less publicly available information, and changes in tax or currency laws or monetary policy. These risks are likely to be greater for emerging markets than for developing markets.

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