# THOUGHT FOR THE WEEK

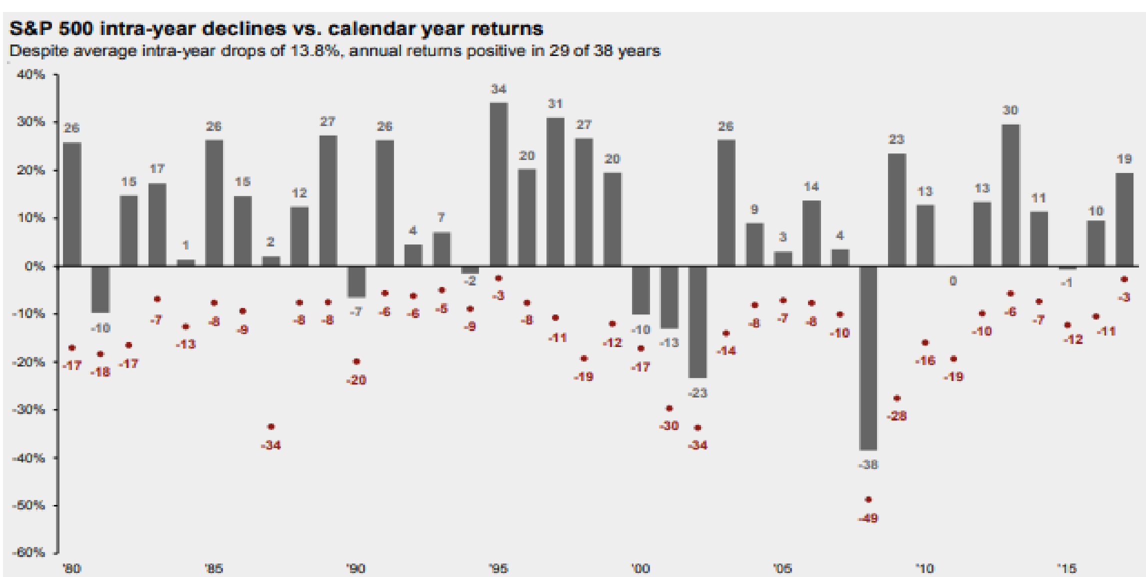
## Three strategies to handle market volatility


SUMMARY

- Stocks have risen steadily for nearly a decade. History tells us that stock market declines are an inevitable part of investing. The good news is that corrections and bear markets don't last forever.
- No one can accurately predict short-term market moves, and investors who sit on the sidelines risk losing out on periods of meaningful price appreciation that often follow market downturns.
- Emotions can drive investment decisions during times of volatility but investing regularly can help control emotions. It pays to be patient.


Market returns have been strong for a very long time – and for good reason. The global economy is improving, and interest rates have been at all-time lows. Central banks around the world have been supporting the recovery from the 2008-2009 global financial crisis. As a result, stock markets have had a very nice run up. Is it reasonable to expect 30% returns every year? Of course not. We were overdue for a correction of some kind. Volatility is a normal part of investing, and it's important to remain focused on the long term. We still feel good about the global economies being supportive of corporate earnings. Markets do better over the long term when they experience corrections periodically; they can't go up all the time. Here are three strategies to help cope with market volatility.

1. **Understand that markets fluctuate – it's what they do. However, downturns are also normally short lived.** Market downturns may be upsetting, but history shows that the U.S. stock market has been able to recover from declines and can still provide investors with positive long-term returns. The red dots in the below chart represent the maximum intra-year decline in every calendar year in the S&P 500 since 1980. There were 21 corrections – losses of at least 10% from a previous high – from 1980 through 2017, six of which happened during the current bull market cycle that started in 2009, near the end of the Great Recession. When losses reach 20%, it's considered a bear market. These are less common: There were only six bear markets from 1980 through 2017. On average, the S&P 500 experienced an intra-year decline of 13.8% annually from 1980 through 2017, and yet has posted positive annual returns in 29 out of 38 years.




Data Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2017, over which time period the average annual return was 8.8%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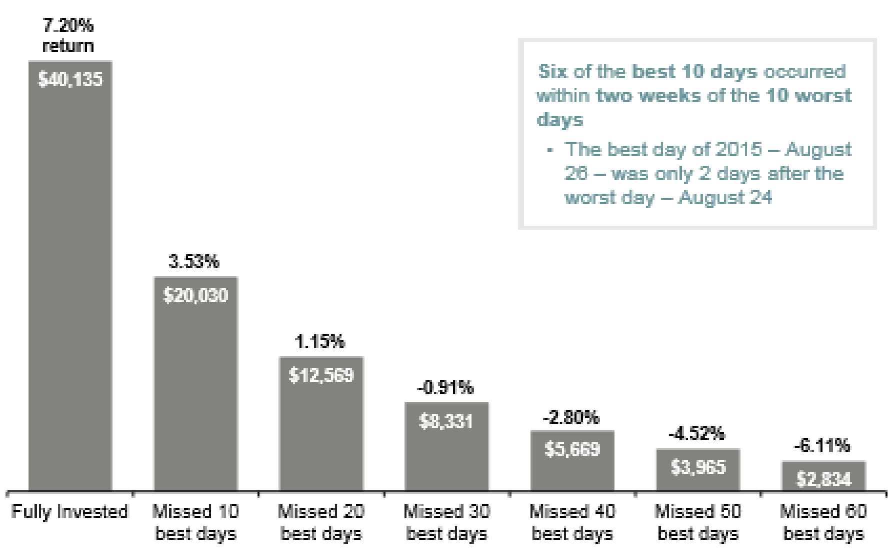
2. **Time in the market matters, not market timing.**
   Generally speaking, you should only invest in the stock market if you have a long-term goal, and you know what that goal is. Once you invest in the stock market, your money is on a journey not too different from being on a curvy road. Just because the road curves away from the general direction of your destination, doesn't mean you should get off the road. It's also important to note that managing your money actively is not the same as trying to time the market. If we could avoid the bad days and invest only during the good ones, it would be great! The slight problem is that it's almost impossible to do this consistently. The best and worst days in the stock market tend to cluster, so if you exit the market, there's a good chance you could miss the opportunity to recoup any losses. The chart below from JPMorgan's *Guide to Retirement* shows how $10,000 invested in the S&P 500 total return index could result in a return of -0.91% by missing the 30 best days over a 20-year period, compared to a return of 7.2% remaining invested over the same period.

**Returns of the S&P 500**
Performance of a $10,000 investment between January 1, 1998 and December 29, 2017




Data Source: Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrated purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under-or-over compensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 29, 2017.

3. **Invest regularly – the market tends to reward long-term investors.**
   Investing regularly can help control emotions. Investors can contribute consistently regardless of global events and market selloffs, which are times when emotions can drive investment decisions. Investors will typically buy more shares when prices are lower, which can increase the growth potential of their portfolio, and purchase fewer shares when prices are higher. This technique does not guarantee against losses nor ensure

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gains, but it can help investors avoid the temptation of trying to time the market. According to Fidelity's market research, often what seemed like the worst times to get into the market turned out to be the best times. The study looked at the 5-year returns after some of the worst recessions and stacked them. As the chart below shows, the best 5-year return in the U.S stock market began in May 1932, during the Great Depression.


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.

Bottom line: Panic is not a strategy. Careful planning is the best strategy for surviving market volatility. Now more than ever, as the market experiences rapid ups and downs, investors must have clearly defined plans in place and, most importantly, stick to them. It might not be glamorous, but it's the best way to survive volatility. Even as markets continue to remain volatile, it's important to remember that the economy has lately been full of good news and that nothing has changed fundamentally. Unemployment is low, wages are growing, and corporations are profitable. While the recent downturn might be unsettling, it is actually quite normal.

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