financial fitness

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REACTING TO VOLATILE MARKETS

Last month we shared information about how staying invested in the market during periods of fluctuation and decline is critical to keep in mind as a long-term investor. This month, we wanted to take a more in-depth look at one of those investing principles — consider buying when others are selling.

Market volatility is not all bad for investors. Everyone talks about volatility as a detriment to markets and investors, but few talk about the opportunities that arise during periods of market turbulence. More importantly, some investors forget that, whether it lasts a day, a week, or a year, large market declines have historically been short-term.

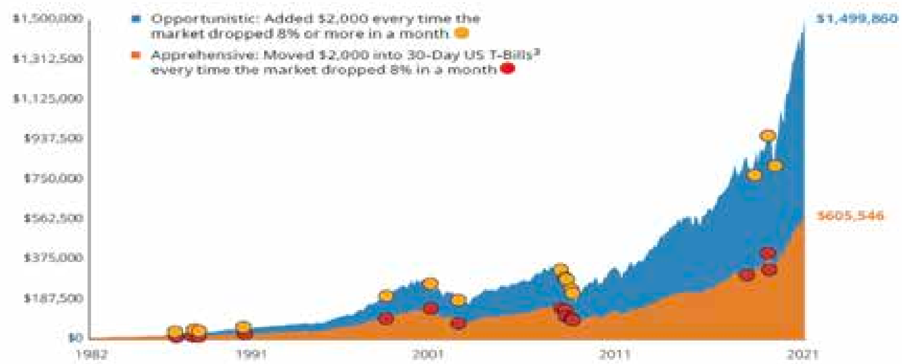
Although there are inherently negative aspects, believing all indicators of volatility are negative is dangerous. It can drive the novice investor to question his or her own investment strategies strictly due to short-term fear. It is crucial to understand that the swings in the market are inevitable, and attempting to navigate around them is risky.

Markets tend to move up and down in the short term, and these swings should not be the deciding factor in whether or not investors should immediately exit. With a strong understanding of market movement and its causes, investors may be able to take advantage of potential investment opportunities.

For example, two individuals began with $10,000 in the S&P 500 Index on 12/31/81. From there, each took a very different investment approach. Every time the stock market dropped 8% or more in a month, the apprehensive investor panicked and transferred $2,000 to T-Bills, which are often viewed as safe, conservative investments.

The opportunistic investor, on the other hand, did the opposite by investing an additional $2,000 in the Index. The apprehensive investor was able to avoid some of the volatility's short-term effects. But after several moves, their assets were completely invested in cash, causing them to miss the significant growth experienced by the opportunistic investor. The opportunistic investor chose to not only tolerate but even take advantage of volatility. As seen in the following graph (Hartford Funds, 2022), ultimately, the opportunistic investor enjoyed a considerably higher investment value of $1,499,860 — more than doubling the apprehensive investor's investment of $605,546.

Two Hypothetical Approaches to Volatility: Growth of $10,000 Invested in S&P 500 Index (1982–2021)[2]



Past performance does not guarantee future results. For illustrative purposes only. Indices are unmanaged and not available for direct investment.

Volatility can provide entry points for those investors whose time horizon and investment strategy are long-term. Increasing a position at a discount can be a very powerful strategy, in effect lowering the average cost per share of that particular security. This may sound and feel counterproductive at the time, but it could add significantly to the investor's performance.

When the stock market gets rough, remember downward turns in the stock market are normal and to be expected. Looking at these negative markets from a long-term perspective can change them into an opportunity instead of a threat.

Wagner Wealth Management has offices in Greenville, Anderson, and Oconee counties. Call us at 864-236-4706 or visit www.wagnerwealthmanagement.com to learn more about our firm.

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Sources:

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