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What To Do When the Stock Market Swings

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Guideway Financial, LLC
Sharon Lear
512-487-7762
sharon.lear@guidewayfinancial.com

Recently the stock market has gotten a little bumpy, as the chart below shows. During times such as these, a flurry of news articles usually ensues, which often drives investor anxiety. Magnifying the concern further, reputed expert prognosticators weigh in regarding the immediate action investors should take, but frequently the opinions are contradictory.

Despite the uncomfortable ride, we recommend clients stay the course. Market volatility is not unusual, and it is to be expected. Guideway's long-term forecasts account for the short-term volatility, and we optimize the portfolio to maximize the probability of achieving your goals (or equivalently, achieving the maximum goal with a desired probability of success). Investors who move in and out of the market according to their emotions introduce unnecessary risk and no longer maintain an optimal portfolio mix. This will increase the probability of falling short.

Keep in mind that investing for retirement is a long process over several decades. Even individuals who are already retired may have a two to four decade investment period remaining. It is important to establish and follow a retirement plan for the long term, not become overly stressed about short-term issues. By short-term, we mean a few years, not just last month! Losses will happen every few years and may even last for several years. But, achieving the end goal is what is important.

Of course, even with rigorous mathematical analysis and portfolio optimization, risk still exists. It cannot be eliminated. Investors should always be mindful that shortfalls can happen and have a plan should one occur. A good approach is to have a retirement budget that includes more than just the necessities. It should include travel, leisure activities, dining out, etc. Should a shortfall occur, the fun items can be reduced temporarily to take care of necessities.

To provide more insight into potential investment outcomes, we have updated our planning process to include potential one-year losses. The intent is to show ahead of time what type of volatility our clients may face with their portfolios. Think of it as a "worst case" view. The purpose is not to be pessimistic, but rather, for clients to gain confidence in advance of market uncertainty. Knowing what to expect helps all of us have the fortitude to stay the course when market drops occur (and they will). We will roll out the new information to clients in February, and we will continue to develop materials to help our clients prepare for volatility.