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WEALTH MANAGEMENT

A look at investing in volatile markets

THINKSTOCK ILLUSTRATION

After six years of fairly steady gains, the markets are, once again, showing us that stock prices can also fall — and fall fast. As an investor who is depending on your investment portfolio to help meet some key goals, such as a comfortable retirement, how should you respond to this recent round of market turbulence?

First, it's important to understand just what's causing the turmoil. As always, market movements contain at least some elements of mystery, but most experts attribute the current volatility to a combination of these factors: a major slowdown in China's economic growth, a sharp decline in oil prices and the anticipation of the Federal Reserve raising short-term interest rates.

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But it's equally as important to look beyond the headlines of the day. Despite what is happening elsewhere in the world, the U.S. economy is reasonably solid: Employers are adding jobs at a pretty good pace, wages are rising and home prices are up. Plus, corporate earnings — a key driver of stock prices — are generally healthy, though perhaps not as robust as many investors would like to see. Furthermore, consumer debt is at manageable levels and interest rates, even factoring in a small bump, are still at near historic lows. To sum up, we're in a lot better shape than we were heading into 2008 and early 2009 — a period in which the financial markets fell into a deep hole.

For many investors—particularly those very close to retirement — simply understanding what is really going on doesn't make the recent portfolio declines any more palatable. Still, now may not be the best time to make any drastic changes to your portfolio.

The recent volatility may seem severe, but it's hardly unprecedented. The financial markets have experienced many "corrections" (declines in stock prices of at least 10 percent from their recent highs), and after every single one, eventually recovered all the lost ground and then moved to new heights. And we may have been overdue, too: Before this downturn, the S & P 500 had gone more than 1,400 days without a 10 percent correction. It's far more typical for the market to experience a 10 percent to 20 percent correction roughly every one to two years.

But staying calm doesn't mean being inactive. Keep in mind that a market correction, by definition, means that prices have dropped for most stocks, including the ones that represent strong companies with favorable prospects. And a correction is often accelerated by investors selling shares to supposedly cut their losses. But when prices are down, it's actually a good moment to buy. Now may be an excellent time to purchase quality stocks, at bargain prices.

You also may want to take this opportunity to consider whether you need to further diversify your holdings. In a downturn, just about everybody takes a hit, but if you were affected particularly strongly, you might be over-concentrated in just a few types of stocks. You can help reduce the impact of volatility on your portfolio by owning a mix of domestic and international stocks, bonds, government securities, certificates of deposit (CDs) and possibly even "alternative" investment vehicles, including real estate and commodities, such as precious metals.

Ultimately, you don't have to scuttle your longterm investment strategy merely on the basis of a few bad months in the market. If you've created a strategy that reflects your risk tolerance, time horizon and financial goals, and if you make needed adjustments over time, you'll give yourself the ability to look past today's headlines.

• *This article is provided by David Klein,a financial adviser at RBC Wealth Management.*

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