Dealing with short-term market volatility

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During the past three years, we've become far too accustomed to it. Stocks are down triple digits one day and up the same amount the next week or possibly even the next day.

During theses times, watching the financial news often can create confusion, indecisiveness and, in extreme cases, panic. Hearing a different strategy from every angle on a daily basis only compounds these emotions.

It is not surprising that some investors may feel uneasy and helpless.

Although the markets may be on a rollercoaster ride, ideally investors' emotions should not be on that same ride. Fortunately, through all of the market volatility we have seen, there are still successful strategies that alleviate the ups and downs of typical investor emotions during hyperactive markets.

THE PROCESS

Due diligence, diversification and discipline while creating your wealth management plan will lessen the fluctuation of your portfolio. These traits along with patience and an awareness of what is causing the volatility will help decrease the emotional highs and lows of an investor.

Be honest with yourself when developing a plan for all market conditions. Speak with your financial adviser and share your concerns, be realistic and, most importantly, be proactive in your investment decision making.

PREPARE

Understand that, with political pressures and global concerns, decisions can be made halfway across the world and cause a ripple effect in markets around the globe.

The perception of these decisions and how they may affect global economies can cause extreme volatility in the markets. Stock and bond prices can often have knee-jerk reactions to these decisions and be reflected in dramatic price changes.

Such changes can sometimes be extreme, and in many cases become self-fulfilling for short periods of time. It is during these times, where an understanding of what is causing the volatility will help an investor to stay on course with their plan.

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FEAR AND GREED

Fear and greed drive the markets. All investors are faced with both these emotions at one time or another.

It is how we manage these feelings that will dictate the extremes of the emotional roller coaster. They are difficult to completely eliminate when dealing with our money, but they can be managed.

The first step is to recognize when we are about to make a decision based on either the elation or discomfort they are causing. The second step is to take a step back and evaluate if this decision is part of your established long-term goals and objectives.

If so, then follow your plan. If not, try your best not to "rationalize" the decision and how it fits in under the exception rule.

Risk, return and comfort expectations do change for an investor over time, but typically it is not beneficial to make wholesale changes to your plan during a volatile period.

DO YOUR HOMEWORK … AHEAD OF TIME

Doing your homework while creating a wealth management plan is not only important initially, but is also necessary to capitalize on extreme moves in the marketplace. Markets often overreact during these volatile times, and having a well-thought-out plan ahead of time will allow you to identify opportunities.

Historically the markets have recovered very favorably from countless adversities. It is important to realize that fear in the marketplace is normal and with hindsight, recognizing those times are sometimes opportunities in disguise.

While it may seem counterintuitive, market declines may present a chance for investors to take advantage of lower prices in assets that are compatible with their overall plan.

Remember, you're investing for tomorrow's goals. By staying calm and sticking with sound investment strategies proven to help you achieve long-term goals, you'll be able to more smoothly ride the wave of market volatility.