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BANWELL FINANCIAL INC.

Integrity Competence Service

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Six strategies for volatile markets

When markets get choppy, it pays to have a plan for your investments, and to stick with it.

The markets have become volatile once again, as concerns over China's economy add to fears of a global economic slowdown. Add to that volatility in oil prices, changes in the relative strength of currencies, and expectations that the U.S. Federal Reserve will gradually raise interest rates, and the result is uncertainty in the markets.

"Nothing causes investors to question their strategy and worry about their money like a dramatic sell-off," says John Sweeney, Fidelity executive vice-president of retirement income and investment strategies. "A natural reaction to that fear might be to reduce or eliminate any exposure to stocks (equities), thinking it will stem further losses and calm your fears, but that may not make sense in the long run."

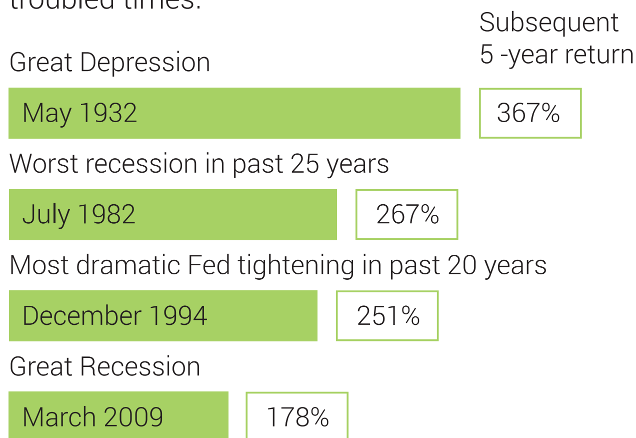
Plan for Volatility

1. Market downturns happen frequently, and have typically been followed by recoveries.
2. Trying to time the market has proven challenging and could cost you.
3. A plan that aligns your investment risk with your goals and situation may help you cope with volatility.
4. Professional money managers use volatility to generate returns.

In fact, what seemed like some of the worst times to get into the market turned out to be the best times.

The best five-year return in the U.S. stock market began in May 1932-in the midst of the Great Depression. The next best five-year period began in July 1982 amid an economy in the midst of one of the worst recessions in the post-war period, featuring double-digit levels of unemployment and interest rates.

Exhibit 1 It has paid to stay invested during troubled times.



U.S. stock market returns represented by total return of S&P500® Index. Sources: Ibbotson, Factset, FMRCo, Asset Allocation Research Team as of March 31, 2015.

What does this mean? It may not be prudent to bail out of the market when it is volatile. What is appropriate: Be prepared.

Market volatility should be a reminder that you should have an investment strategy with exposure to different areas of the markets: Canadian, U.S. small and large cap equities, international stocks, investment grade and high yield corporate bonds. This approach should help to match the risk of your portfolio to what you are comfortable with as an investor.

1. Have a strategy

Your time horizon, goals, and tolerance for risk are key factors in helping to ensure you have an investment strategy that works for you. Your time horizon is the amount of time you can keep your money invested. Your tolerance for risk should take into account your broader financial situation such as your savings, income, debt-and how you feel about it all.

Looking at the whole picture can help you determine if your strategy should be conservative, balanced, or growth oriented, or anywhere in between.

2. Be comfortable with your investments.

If you are nervous when the market goes down, you may not be in the right investments. Even if your time horizon is long enough to warrant a growth portfolio, you have to be comfortable with the short-term ups and downs you will encounter. If watching your balances fluctuate is too nerve-wracking for you, think about re-evaluating your investment mix to find one that feels right. Be wary of being too conservative especially if you have a long time horizon because more conservative strategies may not provide the growth potential you need to achieve your goals or income requirements. Realistic expectations make it easier to stick with your long term strategies.

Exhibit 2 Choose the asset mix you are comfortable with.

	Conservative	Balanced	Growth
Bond / U.S. stock / Foreign stock / Short-term investments	Bond 50%, U.S. stock 14%, Foreign stock 6%, Short-term investments 30%	Bond 40%, U.S. stock 35%, Foreign stock 15%, Short-term investments 10%	Bond 25%, U.S. stock 49%, Foreign stock 21%, Short-term investments 5%
Annual Return %			
Average	6.01	7.98	8.97
Best 12 months	31.06	76.57	109.99
Worst 12 months	-17.67	-40.64	-52.92
Best 5 years	17.24	23.14	27.27
Worst 5 years	-0.37	-6.18	-10.43

Data Source: Ibbotson Associates, 2015 (1926-2014). ***Past performance is no guarantee of future results.*** *Returns include the reinvestment of dividends and other earnings. For information on the indexes used to construct this table,* *see page 4.*

3. Diversify

One of the most important things you can do to help manage the risk of volatile markets is to diversify. While it won't guarantee you won't have losses, it can help limit them and provide for a smoother ride. This was put to the test during the credit crisis of 2008/09.

Look at the performance of three hypothetical portfolios: a diversified portfolio of 70% stocks, 25% bonds, and 5% cash, a 100% stock portfolio, and an all cash portfolio (see chart below).

By the end of February 2009, both the all-stock and diversified portfolios would have declined. However, diversification helped reduce losses compared with an all stock portfolio.

When the market recovered our hypothetical all-stock portfolio would have risen the most, followed by the diversified portfolio, and then all cash. This is a good example of how such portfolios can behave in declining, and rising markets. If the markets continue an upward trend, the diversified portfolio might gain less than the all-stock portfolio but more than the all-cash portfolio. Diversification helps to manage the risk level of the portfolio.

Diversification can be among the traditional asset classes of stocks, bonds, cash. In addition to this real estate, infrastructure, private equity and money management style. To help offset even more risk diversification can take place within each asset class.

4. Do not try and time the market.

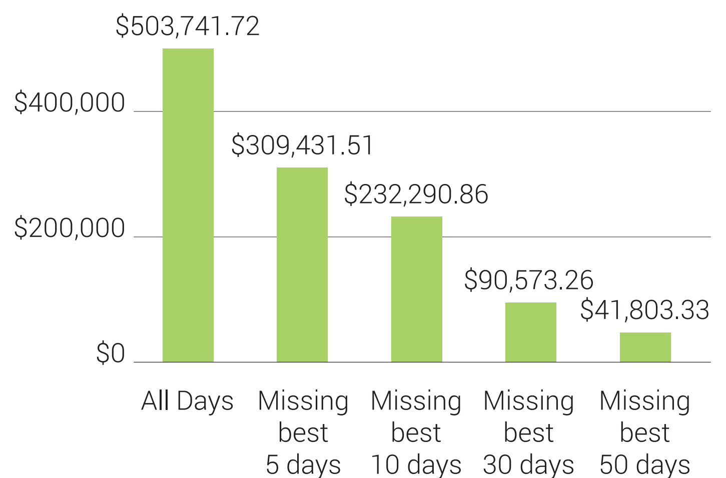
Attempting to move in and out of the market can be costly, particularly because a significant portion of the market's gains over time have tended to come in concentrated periods. Many of the best periods to invest in stocks have been those environments that were among the most unnerving. Investors face long odds in trying to time the ups and downs of the market, and Fidelity research shows investors tend to increase their allocations to stocks ahead of downturns, and decrease their exposure just prior to market rallies.

Exhibit 3 Diversification has helped to smooth out market volatility.

	Jan. 2008 through the market bottom, Feb. 2009	Five years from the bottom: Mar. 2009 - Feb. 2014	2008 to five years from the bottom: Jan. 2008 - Feb. 2014
All-cash portfolio	1.6%	0.3%	2.0%
Diversified portfolio	-35.0%	99.7%	29.9%
All-stock portfolio	-49.7%	162.3%	31.8%

Source: Strategic Advisers, Inc. Hypothetical value of assets held in untaxed accounts in an all cash portfolio; a diversified growth portfolio of 49% U.S. stocks, 21% international stocks, 25% bonds, and 5% short-term investments; and all stock-portfolio of 70% U.S. stocks and 30% international stocks. This chart's hypothetical illustration uses historical monthly performance from January 2008 through February 2014 from Morningstar/Ibbotson Associates; stocks are represetnted by the S&P 500 and MSCI EAFE Indexes, bonds are reprentented by the Barclays U.S. Intermediate Government Treasury Bond Index, and short-term investments are represented by U.S. 30-day T-bills.

Exhibit 4 Trying to time the market can cost you. Hypothetical growth of $10,000 invested in the S&P 500 from January1, 1980 to March 21, 2015.



Past performance is not a guarantee of future results. *The hypothetical example assumes an investment tracks the returns of the S&P 500® Index and includes dividend reinvestment but does not reflect the impact of taxes, which would lower these figures.*

5. Invest regularly despite volatility

If you invest regularly over months, years, and decades, you can actually benefit from a volatile market. Through a time-proven investment technique called dollar cost averaging, you invest a set amount every week, month, quarter, regardless of how the market's doing. Over time you will be buying more shares of each investment option when prices are low, and fewer when prices are high. As a result, the average price per share of your investments may be lower than if you invested all your money at once. More importantly, you avoid the temptation of trying to time the market.

6. Consider a hands-off approach.

To help ease the anxiety of volatile markets a professionally managed portfolio will provide tactical allocation to a variety of asset classes in one account. This approach provides exposure to asset classes representing good value, avoiding assets that are expensive (riskier), exposure to different manager styles, and will offer a smoother ride during periods of market stress. Today's out of favour assets represent the future growth in our portfolios.

The bottom line

Rather than focusing on the turbulence, wondering if you need to do something now, or what the market will do tomorrow, it makes more sense to focus on developing and maintaining a sound investing plan. A good plan will help you ride out the peaks and valleys of the market, and may help you achieve your financial goals.

Partially based on an article from our U.S. partners at Fidelity.

Indexes are not illustrative of any particular investment. The S&P500 Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

The Dow Jones Wilshire 5000 is a market capitalization-weighted index of approximately 7,000 stocks.

The Barclays Capital Global Aggregate Bond Index is an unmanaged market value-weighted index representing secutities that are SEC-registered, taxable, and dolalr denominated.

The MSCI EAFE (Europe, Australasia, Far East) Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. and Canada.

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