



The value of being a long-term investor in a volatile market

It's only natural to be concerned with the economy and how it affects your personal financial circumstances. Though retirement may be a faraway thought for many of us, the truth is that the volatility of the stock market today may challenge the decisions you've made on funding your retirement.

When markets are uncertain, it can be tempting to move all your assets into less risky investments. Economic strains may even lead you to delay investing altogether. Yet history tells us that downturns are a normal part of the market cycle, and investors who stick to a consistent strategy tend to come out ahead.

What is market volatility?

Market volatility is a term used to describe the daily fluctuations, large and small, of the stock market. Volatility also describes the condition of a security, which is a general term used to describe an investment like a stock, bond or mutual fund. A security has high volatility if its value fluctuates frequently over a period of time, and low volatility if its value remains relatively steady over a period of time. Normally, a security with higher volatility indicates a riskier investment.

There are a wide range of factors that may affect market volatility such as world events, performance of certain sectors of the market, political factors and natural disasters. Most of these factors are beyond anyone's control and happen unexpectedly.

Should I be worried about my savings during a volatile period?

When a drop in the stock market occurs, it's easy to become discouraged or even nervous about your retirement savings funds. But don't overreact.

Market volatility is a normal and inevitable part of the stock market cycle and should be factored into your long-term investment strategy. It's like getting a cramp while running a marathon; you may feel uncomfortable in the moment and begin to lose sight of the end goal, but staying the course is the best way to cross the finish line. Similarly, understanding your investment strategy and maintaining that focus through a volatile period may help you reach your retirement goals.

Familiarizing yourself with the history of the stock market may give you peace of mind if you are

concerned about market volatility. Historically, stock market drops have been followed by an eventual bounce and market growth. The graph on the next page shows that recovery periods have historically lasted longer than downturn periods.

Understand your risk tolerance

When determining an investment strategy that will help you meet your retirement goals, you may want to consider factors such as your current age, desired retirement age and current savings to determine the amount of risk or volatility you are comfortable with in your portfolio. If you have plenty of time before your planned retirement age, you may feel comfortable creating a more aggressive portfolio that, while typically characterized by high growth potential, could be subject to greater short-term fluctuations.

However, if you are nearing retirement, you may want to consider a more conservative portfolio. You may need access to your money sooner and therefore won't want to be exposed to potential market drops in the short term.

Diversify your portfolio

One step you can take to reduce the impact of market volatility on your investment portfolio is to allocate your assets across different asset classes in more than one market segment. This is called diversification.

For example, you may purchase a variety of stocks and bonds representing various industries. While one segment may be experiencing a downturn, another could be growing. Therefore, you may be able to offset losses in one segment with gains or smaller losses in another segment.

Don't try timing the market

Taking your money out of the market in order to avoid the worst days may end up setting you back. While avoiding the worst market days may help your overall growth, the market's unpredictable nature can result in market spikes on any given day.

Panicking and taking your money out of the market may result in missing the days when the market recovers and potentially provides the greatest return on your investment.

As with any financial decision, we encourage you to discuss your options with a financial advisor and consider costs, risks, investment options, and limitations prior to investing. You should choose the option that is right for you and your specific situation.

Diversification and asset allocation do not ensure a profit and do not protect against loss in declining markets.

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