Don’t Panic, Plan It!

By Lori Schock, Director of the SEC’s Office of Investor Education and Advocacy

Your first reaction during a time of market volatility may be to panic. Don’t. Instead, plan it!

Various events can cause market fluctuations−pandemics, shifts in government policies, crises in foreign countries, changes in economic data, and so much more. You can’t control how these forces may impact the market, but you can take steps to mitigate their impact on your investment portfolio. One of the best ways to manage the impact of market volatility on your portfolio—whether you are an experienced investor or just starting out—is to create and stick with a risk-appropriate, diversified investment plan.

If you have already created a personal investment plan, you may want to consider reviewing it to see if any adjustments need to be made to meet your financial goals. But it is important not to make any rash decisions during volatile markets.

Find Your Risk Tolerance

All investments involve some degree of risk. A key to a successful investment plan is to establish your risk tolerance where you're comfortable through the inevitable ups and downs of the market. When developing your investment plan and considering risk, think about your investment objectives and experience, time horizon, current financial situation, and aversion to losses. If you will need to withdraw money from your investments sooner (for example, to pay for unexpected expenses or living expenses in retirement), you may want to consider more conservative investments since you may not have a lot of time to wait for a market rebound. Everyone has different risk tolerances and only you can decide what's best for your financial future. As part of this analysis, you also should understand and consider the impact of fees on your investments. If you need help determining your risk tolerance, check out the SEC's risk information on Investor.gov or ask a financial professional.

Also, when creating your investment plan, it's important to put money aside in something less risky that will allow you to access your money at any time in case you need it for life's unexpected challenges, such as sudden unemployment. For example, putting money into an FDIC (Federal Deposit Insurance Corporation) insured bank account provides a guaranteed and liquid option. Many financial professionals recommend having up to six months of money in savings to help carry you through difficult economic times.

Diversify, Diversify, Diversify

I can't stress enough the benefits of diversification in your investment portfolio. In other words, "Don't put all of your eggs in one basket." Spreading your investments across a mix of stocks, bonds and cash can be a sound strategy. Including different kinds of investment products in your portfolio reduces risk and the impact of volatility on your overall portfolio.

Diversification is also important *within* an asset class. For example, if you plan to invest a specific amount of money in stocks, don't put it all in one or two stocks. Instead, consider spreading it out across different types of industry sectors.

Don't Try to Time the Market

Some initial reactions during a downturn may be to sell and get out of the market. But most investment plans are created for the long-term, allowing investors to not become distracted by short-term market flucutations. If you're able to, continue to

invest according to your investment plan, even when the market swings up and down. Consider utilizing a “dollar-cost averaging” investment strategy. When markets and fund prices are up, you are acquiring fewer shares. When markets drop, your regular contribution actually acquires more shares of the fund, setting you up for gains when the market recovers.

A mistake you can make is to sell your investments when you see them go down, when it can often be the best time to buy. I realize that not everyone may be in a position to do this, but it is something to take advantage of, if you can. Remember, ultimately it’s time *in* the market, not *timing of* the market, that generally leads to long-term investing success. Again, when creating your investment plan, do so with an understanding based on your goals and risk tolerance, such that you can continue to follow it during times of market volatility.

Investing for Your Future

Even during a time of market volatility it’s important to continue to contribute to your retirement plan, such as the Thrift Savings Plan (TSP), a 401(k) plan, or an Individual Retirement Account (IRA). If you’re able to, max out any employer match and take advantage of the “free money.” No other investment will give you that kind of guaranteed return. Contributions to some of these plans also are tax advantaged.

If money is tight, consider reviewing your current budget to see if you need to make adjustments or realign your priorities. Decide if it makes sense for you to lower the amount of money you spend in one category, in order to continue to allocate funds for your retirement. Saving for retirement and investing for your future is always a good idea, no matter the market conditions. However, only you know what you can afford and works best for you to meet your long-term financial goals.

Retiring Soon?

Sometimes market downturns come at the most inconvenient times. As you get closer to retirement, consider if you need to make changes to your investment plan to accommodate your financial needs. For example, you may want to shift from more aggressive investments to more conservative investments. Making these kinds of adjustments ahead of retirement may help protect your portfolio against damaging market volatility.

Stay Calm. Stick to Your Plan.

If you have the right investment plan, you shouldn’t need to make rash decisions during times of market volatility. A plan that takes into account your long-term financial goals and risk tolerance and includes a portfolio of diverse assets, will better prepare you for inevitable market changes. Most importantly, whatever you do, don’t panic, plan it!

The Securities and Exchange Commission disclaims responsibility for any private publication or statement of any SEC employee or Commissioner. This article expresses the author’s views and does not necessarily reflect those of the Commission, the Commissioners, or other members of the staff.

Source: https://www.investor.gov/additional-resources/spotlight/directors-take/dont-panic-plan-it