Fundamental Investing

Weathering Market Downturns

Five questions to help you maintain perspective

Staying calm amid market turmoil is not easy, especially when the financial headlines are blaring words such as *panic* and *collapse*. Your first instinct may be to abandon the markets, but that may only create turmoil for your long-term financial plans. Before taking any action, ask yourself some basic questions.

1 Have my long-term needs changed?

There is no way to lessen the pain of watching your assets decline 20% or even 30% or more during a severe market downturn. Still, bear markets are as much a part of the business cycle as bull markets. That's why it is so important to think rationally before acting when markets change. You should also work closely with your financial professional. They will help make sure your plan and portfolio stay in sync with your needs, goals and risk tolerance. It may be difficult at the moment, but waiting out a market downturn may be your best course of action.

If you need access to your money in the short term, meet with your financial professional to determine what immediate steps you can take to reposition your assets.

2 What are my immediate needs for liquidity?

If you depend on a portion of your investments for current income, your financial professional can help you determine what steps you can take to try to meet your current income needs while not disrupting the long-term value of your holdings.

If you don't need your stock assets for current income, you may not want to do anything during a period when stock values have declined. During a credit crunch or a decline in real estate values, it may seem as though stocks are one of the more liquid assets you own, but remember that stocks generally serve investors best when they are used to meet long-term, not short-term, needs. Overreacting to a stock market decline could bring losses that you may regret when the market rebounds, as it will, if history is any guide.

3 Has my tolerance for risk changed?

When you first started working with your financial professional, you probably developed a risk profile to help them ascertain whether your natural temperament with regard to investing is conservative, moderate or aggressive. Difficult markets help you find out what your true temperament is. If volatile markets bring too many sleepless nights, then you may need to dial your overall portfolio back to a more conservative stance. Alternatively, if you view a major decline as an opportunity to buy stocks at a significant discount, you may be willing to take a more aggressive approach with your investments.

Work closely with your financial professional, who will put bull, bear and changing markets in perspective and help you make deliberate, informed choices over time.

4 Does my current strategy match my attitude toward risk?

If a market decline has revealed your true temperament for risk, the next step is to make sure your current holdings match your preferred style. Talk to your financial professional so they can ensure that your long-term approach is aligned with the level of risk you're willing to take.

5 Am I following an investment strategy that is suited to any market environment?

It's easy to let the current state of the market influence your investment strategy. In a bull market, you may want to load up on stocks. In a bear market, you may be tempted to sell every stock you own. But those types of reactions may not serve your long-term goal of accumulating enough assets to educate your children or finance a retirement that could last two decades or more.

One of the best ways to invest through any type of market may be to follow these principles:

- Allocate your holdings across the major asset classes, such as stocks and bonds, to help you pursue the optimal returns for the risk level you are willing to accept.
- Diversify within each asset class to gain exposure to different investment styles, such as growth and value, and to various sectors of the market.
- Rebalance your holdings periodically to adjust after market activity and to keep your current asset mix in line with your desired goals and risk tolerance.

No investment strategy can ensure a profit or protect against a loss.

One of the best ways to invest through any type of market may be to follow the principles of "ADR" — allocate, diversify and rebalance.

THE VALUE OF ADVICE

Of course, your financial professional — who knows your goals, temperament and total holdings — is maybe one of the best people to help you decide how to respond to a market downturn. Thinking through your answers to the questions outlined here, either before contacting your financial professional or during a meeting with them, will help ensure that you react wisely to any drastic changes in the market. During difficult times, it's natural to want to do something. Meeting with your financial professional and reexamining your investment plan can help satisfy that urge and could keep you from inadvertently disrupting long-term goals.

Investing involves risk. There is always the potential of losing money when you invest in securities.

Asset allocation, diversification, and rebalancing do not ensure a profit or protect against loss in declining markets.