Staying cool when the market isn't hot

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Keeping cool may be hard to do when the market goes on one of its periodic roller-coaster rides. As we have seen with recent events, market swings can test your patience, especially when it comes to your investments. It may be useful to have strategies in place that prepare you both financially and psychologically to handle market volatility. So when the heat of the markets makes you start to sweat, think of these key points before making a decision that could create a long-term impact on your ability to achieve your financial goals.

Stick to your game plan

Having pre-determined guidelines that recognize the potential for turbulent times can help prevent emotion from dictating decisions. When it comes to investing, keep in mind risk is part of the equation. A disciplined asset allocation strategy, focused on long-term risk and return trade-offs that are appropriate based on an investor's investment time horizon and risk tolerance, can help enhance the likelihood of meeting your investment goals.

Remember, everything is relative

Most of the variance in the returns of different portfolios can generally be attributed to their asset allocations. If you have a well-diversified portfolio that includes multiple asset classes, it could be useful to compare its overall performance to relevant benchmarks. Even a diversified portfolio is no guarantee that you won't suffer losses. But diversification may mean that if the S&P 500 drops 10% or 20%, your overall portfolio may not decrease by the same amount.

This too shall pass

The financial markets are historically cyclical. Even if you wish you had sold at what turned out to be a market peak, or regret having sat out during a buying opportunity, you may get another chance at some point. Remember, if you are considering changes, a volatile market may be an inopportune time to turn your portfolio inside out. A well-thought-out asset allocation is still the basis of good investment planning.

Continue to save

Even if the value of your holdings fluctuates, regularly adding to an account designed for a long-term goal may help cushion the emotional impact of market swings. If losses are offset in part by new savings, your bottom-line number might not be quite so discouraging. Dollar-cost averaging involves investing a specific amount regularly regardless of fluctuating price levels. Investors who use this technique may be getting a bargain by buying consistently when prices are down.

Don’t try to “time the market”

In a diversified portfolio, the strong performance of some investments may help offset poor performance by others. Even with an appropriate asset allocation, some parts of a portfolio may struggle at any given time. Timing the market can be challenging under the best of circumstances, and wildly volatile markets can magnify the impact of making a wrong decision just as the market is about to move in an unexpected direction. You may wish to consider reviewing your asset allocation before making drastic changes. Even if you think you are able to avoid losses by being out of the market, will you know when to jump back in? Patience can be a virtue in a down market.

Reacting to market downturns by abandoning your long-term strategy can have a significant impact on your long-term goals. Consider your changes carefully. If you feel that a change is necessary, experts may be able to help prepare your portfolio to beat the heat and take advantage of the market’s ups and downs.

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