GATIEN STRATEGIC WEALTH MANAGEMENT

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January 24, 2019

Why does market volatility feel so awful?

If you've felt nervous or unsettled about the market lately, I can tell you that you aren't alone, but you might find that doesn't really help you feel better. I can show you charts and cite facts and figures illustrating why this type of volatility is part of a normal market cycle and that the economy is still in pretty good shape, but somehow in the current environment it just "feels" different, doesn't it?

President Trump is a wildcard. China's influence is too great. Our country has never been more divided. Washington DC is broken. There's too much to worry about. It's different this time.

But is it different this time?

Think back to the 60s – a period of massive global social and political upheaval. The Berlin Wall going up, the Cuban Missile crisis, the Kennedy assassination, the Vietnam War escalation, marches for civil rights. Through all of that uncertainty, the S&P 500 still managed to notch an average annualized rate of return of 7.81% for the decade. (sources: Franklin Templeton "88 Years of Bulls and Bears"; American Funds "The ICA Guide")

The 70s brought an energy crisis, Watergate, an oil embargo, Nixon's resignation and the nuclear accident at Three Mile Island. The S&P 500 annualized an average of 5.86% return for that 10 year period. (sources: Franklin Templeton "88 Years of Bulls and Bears"; American Funds "The ICA Guide")

Cleary this particular set of circumstances are different, but the fact is that every decade brings multiple reasons why it's too risky to invest, reasons why we should get out of the market. There's always a reason to be fearful.

Economic theory tells us that when it comes time to make a financial decision, we weigh our choices carefully and select the one that will provide us with the greatest benefit.

But those theories forget to factor in one very important thing: we are human. Our actions are influenced by more than facts. Our actions are influenced by our emotions, by our "gut feelings", by our instincts. There is a war going on inside our heads – literally – as two parts of our brains battle it out in the decision-making process.

We have the frontal lobe which is responsible

for problem solving, abstract thinking, intellect and judgement. This is where rational, well-thought-out decisions are made.

But deep in the brain is our amygdala. The amygdala is responsible for emotions and survival instincts. It's where the fight or flight instinct comes from. This part of our brain is seeking to avoid risk, to avoid pain.

The pain we associate with losing money is far more intense than the reward felt from a gain. In other words, we are hard-wired to avoid losses. Being a good investor means, in part, fighting against our biological make-up. Talk about a tough fight.

Should I stay invested or should I get out? The rational part of our brains can look at facts and figures and determine that our allocation strategy is appropriate, we have high-quality investments and we should stick with our plan. But then our fight or flight response kicks in tells us that we should be in fear for our mortal lives and that we should take the money and run.

We all want to believe that we are evolved enough to make the most critical decisions using our frontal lobes. But research has shown us that the fight or flight response is powerful and can rear its head when we least expect it. Our instinctive reaction to avoid pain causes us to make decisions that aren't always in line with our best interests.

So, how do we quiet our emotions and allow the rational part of our brain to speak up and be heard?

What can I do?

Ask yourself "Why?"

Why are you investing? What purpose does investing serve in your life? Is it to save for retirement? Is it to pay for a child's college education? Are you already retired and looking to make your nest egg last AND keep up with inflation? If we've done the work of properly matching up your investment strategy with your goals and time frame and tolerance for market ups and downs, you should be in good shape to ride out market volatility.

One of the ways we accomplish this is by ensuring you have an emergency fund adequate enough to cover some of life's unexpected expenses so that you don't have to dip into your investments at inopportune times.

For those of you who are drawing income, our cash flow reserve account allows us to cover up to 24 months of cash flow needs without having to sell your long-term investments.

For those of you coming up on retirement, it's easy to get fixated on a specific retirement date. It might feel short term until that date, but remember: you aren't just investing to reach your retirement date. You are investing to fund retirement itself, which could be 20 to 30 years or even more. That means that some of us will spend as much time (if not more) in retirement as we did working to save for retirement. Your money will need to grow to keep up with inflation. And the best way to keep ahead of inflation is with a solid,

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disciplined, diversified investing strategy.

I've found the attached "History of U.S. Bear & Bull Markets Since 1926" to be an extremely valuable chart. Keeping market declines in perspective is a critical part of quieting the amygdala and allowing our frontal lobe to rein over our emtions.

- The average Bull Market (periods of market gains) lasted over 9 years with an average cumulative total return of 473%
- The average Bear Market (a drop of more than 20%) last 1.4 years with an average cumulative loss of 41%
- The S&P 500 has averaged a 10.16% annual return from 1926 through 2017 – that includes the ups and the downs (source First Trust)

The fact is, no one can predict when the next recession will happen; no one can predict when the next Bear Market will happen. All kinds of pundits and experts try to predict something that is inherently unpredictable. But it's time IN the market, not TIMING the market that leads to greater wealth over time.

Focus on your goals, not the market

Unless your financial circumstances have changed since we last talked, your investment strategy shouldn't change just because the markets are behaving badly.

In our managed accounts, we are rebalancing regularly, bringing our target allocations back in line. As markets were doing well, we were paring back our exposure to those areas of the market and adding to the areas that weren't doing as well. That meant that we were still participating in the upside, but didn't have more exposure to stocks than our target allocation suggests.

It's tough to be disciplined. It's hard to sell what's going up to buy what isn't working. But asset allocation over time helps to smooth the ride so that we don't feel like we're on a roller coaster every time we look at our statements.

Finally, please don't hesitate to pick up the phone to call me or write to me. It's completely natural to feel uncertainty and fear in the midst of volatility. I'm here to answer any questions you might have and guide you through turbulent markets.

Christy

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