

# Financial Literacy Series

*Taking Control of Your Financial Future*

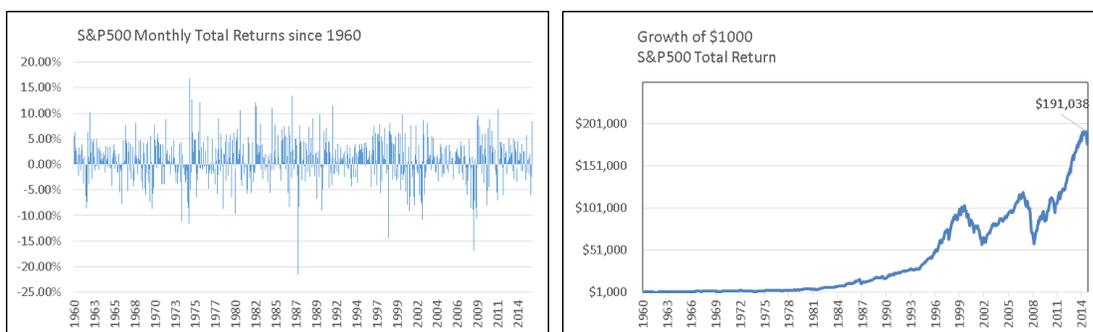


## Short-Term Volatility vs. Long-Term Performance

### Stay the Course

Volatility in the stock market is of no surprise to long-term investors. The impact of these short-term market movements has proven to be of no consequence to the long-term performance of stocks. However, volatile markets can cause damage by causing investors to behave irrationally and sell out of their holdings when the market is down. For those reasons, short-term financial decisions should take increased volatility under consideration. If you need to have your money within 5 years, steps should be taken to adjust your asset allocation to reduce volatility. But, if you don't need to access your money within the next 5 years, it may be wise for most investors to ignore sudden swings in market volatility. Here is why:

### Same Time Period, Different Perspective



### **1. Volatility Does Not Mean Poor Long-Term Performance**

The two charts show how on a month-to-month basis, the S&P shows consistent volatility over time. However, when you look at the long-term performance, you see the gains made despite the short-term swings. For investors with long-term horizons, spikes in volatility shouldn't be cause for panic or selling out.

### **2. Volatility Can Spark Irrational Behavior**

People tend to be loss averse, rather than risk averse. Often times, individuals respond with greater emotion to a loss than by a gain of equal size. The result of this irrational behavior often deepens actual losses by causing people to make the wrong investment decisions. Many professional investors, including Warren Buffet and Vanguard's John Bogle, have recommended that long-term investors sit back and ignore market volatility. At LeTort Trust, we also believe that a well-diversified portfolio, based on sound fundamentals, should be able to weather short-term bouts of volatility.

### **3. Volatility Allows Investors to Buy Stocks on Sale**

When an investor has a well-defined investment strategy, investing and re-balancing regularly, volatility can allow them to take advantage of buying shares at lower prices. The ability for investors to recognize that stock prices were "on sale" during the dips in the market, can improve their average purchase price and add to long-term performance. So the next time you see the market drop, keep in mind the charts on this page. Remain calm, stay invested and think about the long-term benefits of a sound investment strategy.

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