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Volatile markets and icy roads

They both are a great test of discipline, either by the investor or the driver

As I drove home one recent evening, the roads were wet from rain and the temperature was dropping. The forecast called for freezing temperatures throughout the evening. I felt relaxed as traffic was light. I got a call from my 10-year-old son asking when I would be home. I told him to wait up since I would be home shortly. Minutes after I hung up, the outside temperature reached 32 degrees and a car spun out of control slightly ahead of me. I was sure it would hit me! I held the wheel firmly, stayed in my lane, and as quickly as that car careened toward me, it swerved away without colliding and I continued home. Driving is usually peaceful, but at times can be treacherous.

Investing can be a comforting and rewarding experience, but for some, the daily volatility, regular pullbacks and market corrections cause a lot of stress. To be a successful investor, you need to develop a plan and stick to it. Although events in Ukraine were not anticipated just months ago, there is no reason to stop investing or to make a dramatic change to your long-term investment plan. And for newer investors who have not experienced previous market cycles, recent headlines can easily test your discipline.

Much like driving in imperfect conditions, investing is a pathway to reach your goals with frequent tests to see if you hold the wheel or spin out of control. Decisions you make at times of heightened volatility can affect your financial future and, potentially, your children's.

Another point to consider is that during volatile markets due to a global situation

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Personal Finance

such as the Russian invasion of Ukraine, not all investments behave the same way. Watching the news or reading the newspaper, you will know how the broad market is performing with headlines of big up or down days. However, unless you are invested solely in the market indexes, your individual performance is likely to be different than what is being reported. During every market cycle, there are companies and sectors that perform well while everything else is doing poorly.

No crystal balls

Two years ago, there was widespread sentiment that energy-related companies should be divested from a portfolio, and many followed the trend and sold shares of any energy-related company while the sector was trading at decade-low valuation levels. For a while, the decision seemed wise, but now two years later, that sector is hitting all-time highs and energy companies like Exxon and Chevron have not only maintained their dividends during the last decade but have increased them annually while rewarding those investors maintaining their ownership with strong price performance this year. Other sectors, such as utilities, are holding up well with positive gains this year.

A diversified investor needing funds now would own some positions in these sectors and could draw on them at these attractive levels. It is always better to sell high than to sell low. In each market correction, there are areas of strength that can be used as a source of funds if needed rather than selling those positions that are temporarily down. At the same time, someone investing funds for the long-term should research to see what is most out of favor to find advantageous opportunities.

For years, the technology sector was the top performer and positions became expensive. Now technology is the poorest performer, and there are opportunities to invest at better valuations.

Markets such as the one we are experiencing are a great test of investment discipline. Whether you invest on your own or hire a financial advisor to take on that responsibility, now may be a time to review your financial plan and investment allocation. Of course, you may find no change is needed. Often the best course of action is to hold the wheel firmly, stay in your lane and wait for the turbulence to end. NHBR

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