

In Uncertain Times, Rely on Time Tested Principles

COVID 19 and related uncertainty have added to volatility in the stock market. This is a unique and uncertain time for all investors and one that will require all of us to be extra focused and cautious when making financial decisions. Although it's important to build personal finance and investing skills throughout our lives, it's during these periods of uncertainty when these skills provide the most value. We all feel anxiety and have many doubts about the future and how things may unfold in the short term. However, if we focus on building appropriate skills and designing a well-thought-out plan to fulfill our financial objectives, we'll all be in a much better position. We will face more periods of uncertainty and financial surprises in the future, so the more we learn from this one, the more prepared we'll be going forward!

To keep calm and stay confident in your financial plan during turbulent market conditions, investors need to understand how the market has fared through previous periods of extreme volatility and should embrace tried-and-true investment strategies and habits.

Don't panic! Although not panicking is sometimes harder said than done, research has shown that we all make poor decisions when rattled, so try to make financial decisions when you are calm and thinking rationally.

- Avoid the single biggest mistake investors make, which is buying high and selling low. In general, the stock market has been resilient in its recoveries from previous drops. In 7 of 11 historical drops, it only took one year for the S&P 500 Index to recover to its previous all-time high.
- Periods of uncertainty and brutal market swings call for caution. Avoid making drastic changes unless absolutely necessary. While the past cannot predict the future, if you are a long-term investor with time on your side, you can generate positive returns by staying invested, despite large periodic declines.
- Review your financial plan. Investors with a solid financial plan are less likely to be affected by unexpected situations and to second guess their strategies because their long-term plan anticipates the potential for market swings over time. If modifications are needed, having a solid financial plan can help you avoid making bad or irrational decisions.

Don't time the market. Long-term investors are better off contributing consistently to their portfolios than trading in and out trying to time the market

- *Having the right asset allocation or a mix of assets for a given objective is the most important decision an investor makes because it is critical for achieving investment goals.*
- Investors who were not invested during the top 10 trading days for the S&P 500 Index from 2009 to 2019 would have achieved less than half the performance over that same 20-year period.
- Creating an emergency fund of cash or low-risk assets is the best way to insulate yourself from having to sell into a bad market. For you and your family to be better prepared for unexpected events, try to put away a minimum of 3-6 months of household expenses

Stop reacting to the media. News channels that dramatize or overstate market changes shouldn't be your guiding light and should never replace your own research and analysis

- Volatility is inherent to markets and is a normal part of long-term investing.
- If you have a well-thought-out plan with a long-time horizon and diversified exposure to a carefully determined group of assets, then there is little reason to change for short-term issues.
- News is quickly factored into market pricing as the media reports on what is popular, not necessarily what is prudent or profitable.

Review Your risk profile. Your investments should not be a source of stress or trepidation.

- Understand both your financial and emotional ability to take a risk and determine if you are comfortable with the investment risks you are taking.
- Taking too much risk can lead to large variations in investment performance that may be well outside your risk profile, but taking too little risk can result in returns that cannot achieve your financial goals.
- Rebalance your portfolio exposures periodically to make sure that investment risks are still within your comfort zone. Market movements that shifted your portfolio significantly away from those targets might provide an opportunity to rebalance to your target allocations.

Obtain knowledge and advice. Learn as much as you can about the principles and best practices in saving and investing, and seek out advice when necessary.

- Don't make financial decisions in a vacuum but get a second opinion from knowledgeable friends and family or an accredited professional financial adviser, like a CFA charterholder.
- Avoid phishing and other scams, especially ones built around crisis benefits, by obtaining information from government or other reputable sources.
- Take advantage of financial education and determine those skills you need to build on. To develop a clearer understanding of the global investment industry, check out Investment Foundations <https://info.cfainstitute.org/InvFo18-acq.html>.

Like any type of training, building the investment knowledge to help manage through a crisis or other periods of uncertainty takes time, energy, and the discipline to obtain and hone the necessary skills. These principles and best practices are proven to help investors make more rational investment decisions in periods of market turmoil. These skills can be used to meet current financial needs, build long-term wealth, but also defend against the unanticipated events that can lead to financial difficulties.

CFA Institute and its member societies believe that financial markets are more effective when participants are knowledgeable. By providing impartial financial information and education for investors and the public CFA Institute and its member societies help to achieve the mission objective: To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.