Dimensional

David Booth on Market Volatility

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Recently, the market has shown a lot of volatility. This can be unnerving, even when you have a solid plan backed up by an investment philosophy you believe in. Most of the time, it feels great to know that if you're a long-term investor, you can go about your life with the confidence that true conviction brings. But when everyone else is acting like the sky is falling, it can be helpful to remember a few things.

First, volatility is a normal part of investing. We all know that markets go up and down—so we can be disappointed by downturns, but we shouldn't be surprised by them. Most importantly, for long-term investors, reacting emotionally to recent market volatility may be more detrimental to portfolio performance than the drawdown itself.

So, how do you tune out the noise? Working with a good financial advisor can help you see past the headlines and cultivate discipline and a sense of security, knowing you have a well-thought-out plan in place that is working toward your goals. That's the power of professional advice.

One investor changed his life in a profound way by changing his attitude about markets. Hollywood producer Dave Goetsch calls himself a "Transformed Investor" because while he once felt like he was being held hostage to the whims of markets, he's now settled into a healthy, less emotional relationship with investing, anchored by his belief in the way markets work.

I understand that times like this can be difficult,especially since we don't know how long they will last. But try not to lose sight of your long-term goals, and remember that uncertainty is actually part of what creates opportunity. Equities have higher expected returns than other investments because they require investors to bear additional risk. Without uncertainty, investors wouldn't get paid for taking on this risk.

As I've said many times, much of the financial services industry is geared toward making people think they can avoid uncertainty. But the future is unknowable. We believe the best approach is to make informed choices, adjust as your needs and objectives change, and be okay with a range of possible outcomes. And remember: You're not in this alone. Your financial advisor should be there to help remind you that a properly built plan considers the ups and downs of the market.

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