Russell Investments

Investor

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4 habits of successful investors in volatile times

If you are feeling a little overwhelmed by the news about the upcoming election cycle, global growth (or lack thereof), record low interest rates, high valuations, declining earnings, low oil prices… rest assured: you are not alone.

In fact, investors everywhere are grappling with the same big question: "How do I meet my financial goals in this low return, high volatility market?"

You don't need to re-invent the wheel when attempting to navigate this market. Your trusted financial advisor can help you practice the four habits that many of the most successful investors follow to avoid chasing returns or missing out on opportunities.

#1

Reality-check your return and volatility expectations

Since the Global Financial Crisis in 2008, many investors have grown accustomed to U.S. stock returns in the high single digit range with relatively muted volatility. But, using that experience as a benchmark can cause investors to have unrealistic expectations for the future – which Russell Investments strategists believe will be a lower return, higher volatility environment. Adjusting expectations in advance will reduce disappointment and make it easier to stick to your long-term strategic plan.

#2

Diversify… intelligently

Diversification does not protect against loss but its potential benefits are well-established: at its best, diversification aims to ensure that when one part of the portfolio is having its day in the rain, another part is having its day in the sun. Yet, in a low return market, every source of potential return counts, so don't limit yourself to the traditional investment options. In addition, market volatility requires that all your sources of return have differentiated return patterns – providing a good rain and sun balance in the overall portfolio. This sort of intelligent diversification can help provide the diversification benefit when you need it most.

#3

When appropriate, capitalize on the silver lining of volatility

Volatility is both a blessing and a curse for investors. While very few enjoy a stomach-churning wild ride in their returns, volatility also provides potential opportunities to build significant longer term returns. In today's low return environment it's especially important to capture opportunities when they present themselves. At the same time, today's uncertain times mean big bets are less rewarded. Stick close to your strategic asset allocation, while allowing some leeway either side to capture short-term, tactical opportunities.

#4

Get your financial plan right – then stick to it.

The manner in which your financial plan is constructed is critical. It needs to reflect your long-term desired outcomes, be consistent with your circumstances and preferences, and be able to withstand varying market cycles. Make sure you revisit it with your financial advisor once a year. This robust process will help give you the confidence necessary to remain patient and disciplined when markets test your resolve – because it will happen.

THE BOTTOM LINE

Putting these four habits into practice, with the guidance of a trusted financial advisor, will go a long way to helping you build and extend your nest egg. Don't give in to emotional responses to market movements. Strong though the temptation may be.

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