# Investment Decision Making in a Volatile Market

You have just turned on the morning news, poured a second cup of coffee, and are wondering what effect the market will have on your investment portfolio today. Many investors share your concern because they also may have a substantial amount of their wealth invested in the market.

Historically, “bull” and “bear” markets occur with the almost automatic expansion and contraction of the economy. The events that turn a bull market into a bear market and vice versa are events that economists and market analysts have studied over long periods of time. They are considered the ebb and flow of wealth accumulation. Bear markets, for instance, are viewed as normal and necessary, as they serve to “clean up” what are considered prior economic excesses.

## Taking the Long View

Long-term investing is more often about the psychological aspects of managing money and sticking to a financial strategy. It is important to understand how market conditions create euphoria or fear in some people. The general rule is that market corrections will *always* happen. Bear markets prepare the way for future bull markets. And, while investing carries specific risks, many of those risks may become more acceptable and tolerable by remembering, for instance, that what is occurring in a bear market is a revaluing of securities.

Managing the economy is complex. But, a combination of the Federal Reserve Bank’s (the Fed’s) willingness to establish sensible interest rates, along with a changing U.S. tax structure, can help shorten bear markets. The two economic controls of managing interest rates and easing tax burdens generally can help to keep the U.S. economy growing.

## Stick with Your Plan

It is only natural to ask, “What’s the best move during a bear market?” What all long-term investors should realize is that bear markets create opportunities—often, excellent


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opportunities. It is the *long-term* picture that investors need to keep in mind. Your original investment goals may be unchanged, whether they include accumulation for retirement or funding for college education.

Since a bear market on the heels of a bull market reflects a long expansion cycle of growth, it is often easy to lose track of the basics that will see investors through an economic slowdown. Investment opportunities are always present. Therefore, the general rule of thumb must be to continue in the same direction by maintaining a *well-diversified* portfolio.

## Diversification is Key

A diversified portfolio should be based on an investment strategy that represents different sectors of the financial markets, such as stocks, bonds, mutual funds, and cash instruments, consistent with your financial goals and time horizon. Although there are no guarantees, it is widely believed that different asset classes rarely all move in the same direction at the same time.

Investors seeking the relatively higher rates of return that may come from investing in equities, should also be mindful of diversifying *within* this asset class. Equity-based portfolios have a wide range of options to choose from including individual stocks and stock funds in large-, mid-, and small-cap companies, foreign and domestic firms, and individual sectors, such as biotechnology, health care, or utilities.

With a well-diversified portfolio consistent with your goals and objectives—and a long-term outlook—the wisdom of the day is to stay your investment course and resist the temptation to try to time the market's gyrations. It would be beyond anyone's comprehension to think that it is possible to predict when any market will turn higher or lower. Continued involvement, while using a long-term investment strategy, will serve the long-term investor far better than trying to predict the ultimate direction of the market by judging the current emotional temperature of the investing public.

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