How Should I React to Market Volatility?

By: Exchange Capital Management

November 14, 2022

When working with clients, we are often asked during times of market volatility “what should I do?” At Exchange, our advice is simple. You should follow through with your financial plan and communicate your concerns with your advisor.

Exchange is a goals-based wealth management firm. We focus on developing long-term financial plans for our clients, then we use the plan to build and maintain a portfolio. During market volatility, you should trust that your plan and portfolio will guide you to your goals, despite the added instability.

Fight Against Emotional Bias

When discussing market volatility, two things should be made clear: market volatility is inevitable, and all investors are susceptible to emotional bias. Therefore, many seek out a professional investment management team that will make data-backed decisions for their future.

Even with an investment management team, all portfolios should be tailored to your risk tolerance. Those who are risk averse should not have a portfolio filled with risky investments, it makes them more susceptible to their personal biases in times of volatility. You should also know what you own and understand the investments in your portfolio. If you have knowledge about the investments in your account and how they might react in certain environments, you will have faith in your portfolio’s ability to stabilize in the long run.

Trust Your Financial Plan

If you trust your financial plan and portfolio in stable market environments, you should trust it during market volatility. Historically, the market will bounce back. If you succumb to your fear and sell your assets in a market downturn, you are doing yourself and your financial plan a potentially disastrous disservice.

In any financial plan that we create, we always take volatility into account. If you sell out of fear, you forgo the projections your advisor made for you when building your plan. It may feel great to stop the losses and maintain your assets, but when you sell in a market downturn you are trading one problem for another. To stick to your plan, you'll have to reenter the market. This can cause emotional stress because every time the market goes up, you are missing out on returns.

We know that emotions are inevitable. By partnering with an advisor, you have access to a team of financial professionals that can ease the anxiety of market volatility. An advisor can walk you through your concerns, remind you that your plan was built around volatility, and will provide unbiased advice to guide you to long-term financial success.

The Bottom Line

Exchange believes the path to a successful financial plan is based on long-term, goals-based planning. The worst thing you can do for your plan is surrender to your emotions. To stay on track, you need to trust your advisors will focus on the facts and remain unbiased. To understand how emotional bias often affects investment performance, consider giving us a call.