Strategies to Manage the Volatility of the Market Part 2

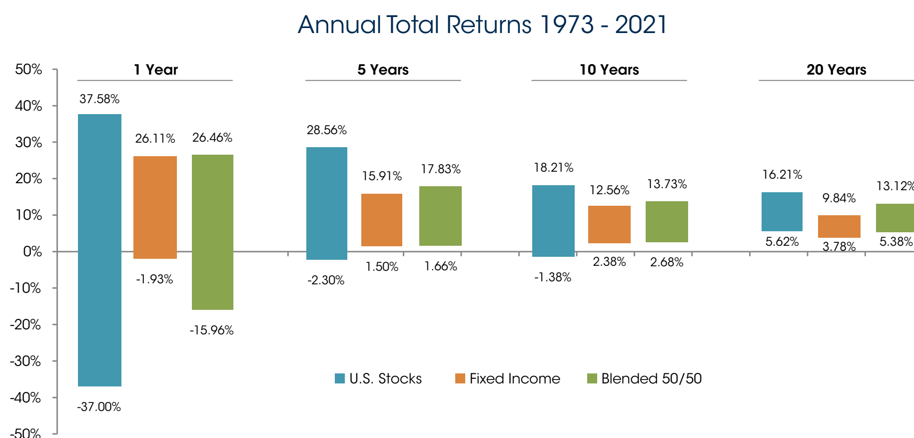
Stay Invested and Focused on the Long-Term Objective

Market volatility can deviate in the short-term for equity markets, but staying focused on your long-term objective is important. With the S&P 500 Index as a metric, historic equity annual returns have varied from –37% in 1995 to 38% in 2008. Rolling annualized returns over a 20 year period have posted positive returns since 1993.

The Fed Fund target rate was lowered to 0 to 0.25% in March 2020 and remained there until March 2022. However, the Fed has raised rates five times since then, and that has some fixed income investors concerned about how their portfolio was affected. But it is important to look at these periods over the long-term and not over the short-term. From 1973-2021, fixed income annual returns have ranged from -2% in 1994 to 26% in 1982. Rolling annualized returns over a 20 year period have posted positive returns since 1993.

A blended 50/50 portfolio posted positive returns on a 5, 10 and 20 year rolling basis, which indicates that asset class diversification can potentially mitigate some of the risk, but not all.

The gap narrows the longer you invest. The lesson here is to prepare for the long haul and try not to overreact to periods of uncertainty.



Source: Bloomberg Finance L.P., S&P 500 Index and Barclay's U.S. Government/Credit Index. Returns shown are based on calendar year returns from 1973 to 2021. Stocks are represented by the S&P 500 Index and Bonds represent Barclay's U.S. Government/Credit Index.

Price return calculations include dividends and capital gains beginning in 1989 for the S&P 500 Index, prior to this date it does not include dividends and capital gains. Past performance cannot guarantee future results. Data as of December 31, 2021.

Assessing Risk and Return

Investors should ask themselves if their expectations for a return on their investment properly compensates them for the risk of loss. For many, the main concern is not the potential return but the probability and size of a loss. Risk and return can vary widely over different historical reference periods, and it is advisable to understand the spectrum of risk to which an investor may be exposed.

An asset allocation strategy that allows you to be comfortable with a certain level of risk is an important aspect of staying invested and focused on your long-term objectives.

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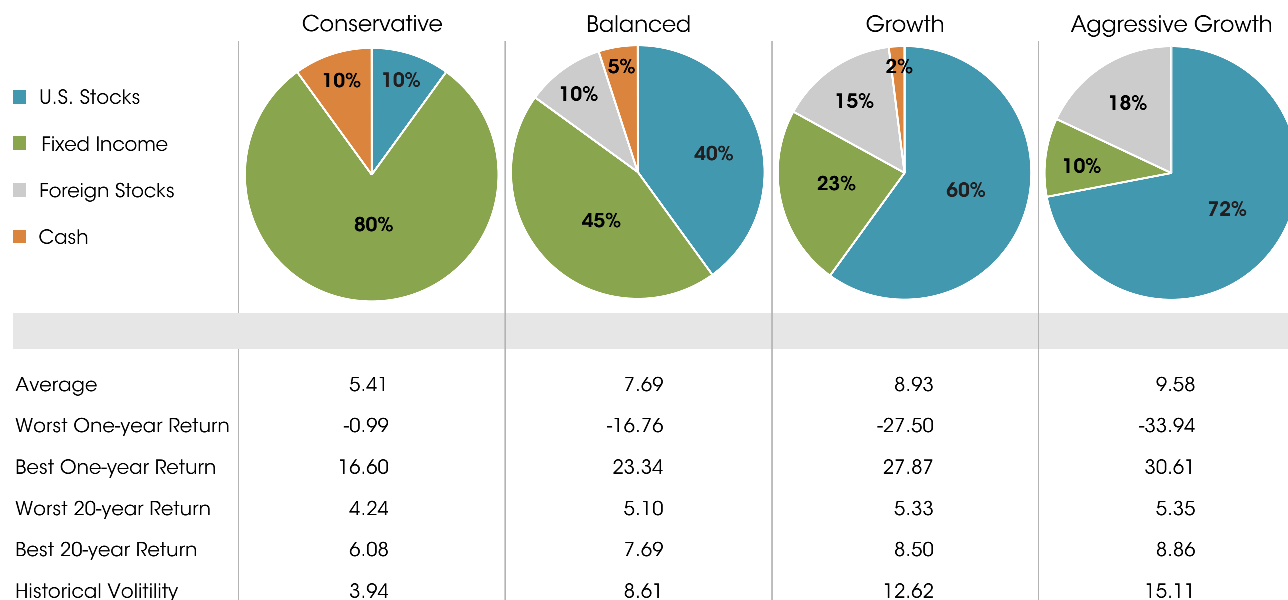
Asset Allocation and the Risk Spectrum – What is Your Comfort Level?

Being invested in the market has inherent risk, but there are different levels. Your Stephens Financial Consultant can advise you on an asset allocation strategy that meets your time horizon, goals and tolerance for risk. All of these factors are taken into consideration when creating a portfolio based on your needs.

You may have a long-term time horizon, but a low tolerance for risk, which means an aggressive portfolio may not be your best option. But too conservative an allocation may not provide the growth you need to achieve your long-term goals. Our goal is to work together to set realistic expectations and maintain a long-term investment strategy.



	Conservative	Balanced	Growth	Aggressive Growth
Average	5.41	7.69	8.93	9.58
Worst One-year Return	-0.99	-16.76	-27.50	-33.94
Best One-year Return	16.60	23.34	27.87	30.61
Worst 20-year Return	4.24	5.10	5.33	5.35
Best 20-year Return	6.08	7.69	8.50	8.86
Historical Volitility	3.94	8.61	12.62	15.11

Source: Bloomberg Finance L.P., S&P 500 Index, Barclay's U.S. Government/Credit Index and MSCI EAFE. Annual returns begin in 1991 and rolling 20 year data begins in 2011. U.S. Stocks represented by the S&P 500 Index, Fixed Income represented by Barclay's U.S. Government/Credit Index and Foreign Stocks represented by the MSCI EAFE. Price return calculations include dividends and capital gains beginning in 1989 for the S&P 500 Index, prior to this date it does not include dividends and capital gains. Past performance cannot guarantee future results. Data as of December 31, 2021.

Next Steps

It is impossible to predict the future, but expecting market volatility is a good bet. Diversification based on your time horizon, goals and tolerance for risk should all be taken into consideration. History shows that diversification and rebalancing are the best tools to reduce portfolio volatility and provide a smoother ride through the peaks and valleys of the market. Contact your Stephens Financial Consultant to discuss strategies to manage market volatility.

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