# Volatility & You

By **Erik Ford**

financial fitness

Market volatility makes us nervous and concerned for good reason, but for the most part, as investors, we should welcome it. I know you are thinking, "Is he nuts?!" but bear with me. With our investments, we are looking to increase the value as much as possible from the time of purchase to the point of sale. To accomplish that to our greatest advantage, we must buy low (the lower the better) and sell high. We get to choose the time for both, excepting an emergency cash need, and what happens in between is of no consequence, but we still let it concern us. Let me explain.

First, let me provide a basic explanation of investment valuation. Theoretically, an asset will be valued today based on what it is expected to be worth in the future, factoring in uncertainty and the time value of money. For example, you would not pay $100 for even the absolute certainty of receiving $100 in a year, but you may pay something less (due

to time value). Given that, you may also not pay the same amount for a promise to receive $100 in a year from your mother as for a similar promise from your Uncle Buck (due to uncertainty). Uncertainties have a larger impact in the short run than the long run simply because their long-term effects are more uncertain. Things become clearer over time. As individuals, we have the tendency to fear the worst and over-react, and the markets do the same. This creates the volatility that gives us angst if we concern ourselves with day to day, week to week, quarter to quarter, etc. movements, but it should not. Rather we should look at uncertainty driven downturns and depressed valuations as buying opportunities, not reasons to panic and run. Of course, there will be some investments that fall in value for good reason and may never recover, but that is why we maintain portfolio diversity.

To provide a little historical perspective on volatility, let me throw out a few statistics. The annualized return of the S&P 500 from 1999 through 2018 was 5.62%. An investor that was out of the market for the best ten days over that period would have had their annual S&P 500 return reduced to 2.01%, and missing the best 20 days over that period would have resulted in an annualized decline of 0.33% [1]. Those are a very few days that can make a big difference, predict them at your own risk. Looked at another way, if we go back to 1949, a 5% decline in the S&P 500 has

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occurred on average three times a year and a 10% decline has occurred on average annually. However, it is important to consider that the average recovery time from a 5% decline has been 44 days and from a 10% decline has been 114 days [2]. Given the frequency of these declines and the relative brevity of the average recovery period, you can see how reacting to volatility can work against long term goals as you sell into declines and miss out on the recoveries due to misplaced caution.

We are more bombarded with more news today than ever before and it seems that every little tidbit creates a market reaction. The talking heads on financial TV and the financial press insist on providing an explanation for every market movement. They do have to capture an audience and can be very hard to ignore. They create great excitement over a 1% daily change (250 for the DJIA and 28 for the S&P 500 at today's levels), but since 1950 moves of 1% or more have occurred on nearly 20% of trading days, so they are not exactly unusual [3].

So while volatile financial markets can be unsettling, remaining steadfast works to the investor's long term benefit. Focus your portfolio risk to be consistent with your long-term objectives and do not fear volatility, but embrace it. If you have any predictable need for cash, don't put it at risk; exclude it from your portfolio mix. As an aside, the day I am writing this (6/4/19) the S&P 500 went up over 2%!

*Erik Ford is the owner of Ford Wealth Management, LLC, in Glen Ellyn, IL. He is a CFP® certificate holder as well as an Accredited Investment Fiduciary®.*

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*Past performance is no guarantee of future results. Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear loss, including total loss of principal.*

*The Standard and Poor's 500 (S&P 500) Index is a capitalization-weighted index of 500 stocks designed to measure performance of the domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. You cannot directly invest in the index.*
*1 Data from JP Morgan Asset Management*
*2 Data from Capital Group*
*3 Calculations from Ford Wealth Management based on public market information.*


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Special Events at Maryknoll Park

THURSDAY, JULY 25 • 6PM-8PM
**Holes & Knolls BBQ Night**
BBQ will be available for purchase out on the patio at Holes & Knolls Mini Golf course. Play a round, then enjoy a brat, burger or hot dog.

MONDAY, JULY 29
**Early Riser Splash Pad**
Join us for an early morning activity inside the splash pad area with B#Sharp Music teacher Monica Corbett. Shake, jump, dance and sing before you start your fun in the water. Dry land activity takes place from 8:30am-9:15am inside the splash park area. Regular splash park admission is required. All water features will be turned on by 9:30am.

SATURDAY, AUGUST 3 • 1PM-2:30PM
**Disc Golf Challenge**
Age: 10-17. Test your skills in this fun introduction to disc golf. Brief instruction on how to throw and play the course will be provided. Challenges include closest to the basket, longest throw and fastest time around the basket! Youth will be divided by age group as registration dictates. Awards will be given to the top two in each division.
**Fee: $15. Code: 114083.**

WEDNESDAY, AUGUST 14
**Late Night Splash & Movie in the Park**
We're staying open late! Enjoy the Splash Park until 8:15pm and stick around Maryknoll Park for a free showing of the animated classic, Alice in Wonderland. The movie will begin between 8:30pm-9pm.