Market Volatility: Are You Feeling a Little Uneasy?

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Four Lessons for Navigating Today's Turbulent Markets

Charting a course for today's uncertain financial markets is much like navigating the waters of the open seas. You need to be prepared before you set out, anticipating changes in the weather and potential challenges on board. You need to stay focused on the set course, yet remain flexible if altering direction is necessary to avoid peril. And you need to employ specific strategies for certain types of conditions.

As a young man growing up at the Jersey Shore, I worked off the coast on commercial fishing vessels for many summers. Often spending seven to ten days at a time out on the ocean dragging steel dredges to catch sea scallops on the ocean floor, I learned a great deal about boating. While I earned good money to help finance my college education, I also experienced the dangers of high winds, thunderstorms, mechanical breakdowns at sea and 30-foot swells . . . and how the weather can turn on a dime.

Now many years later, as a Financial Advisor with more than 30 years of wealth management experience, I find that many of the lessons I learned on my fishing expeditions are applicable to today's choppy financial waters.

Lesson 1: Always Be Prepared

Before you begin investing, it's important to have a strategy in place to help guide your decisions. Your strategy should reflect your personal goals, time frame and tolerance for risk, and it should be anchored in a solid understanding of the potential volatility in the equity, fixed income and commodity markets. The primary goal should be to construct an investment strategy that creates a solid safety net and enables you to pursue all your dreams and aspirations. The time to shift course is not in the midst of a storm, but in advance of the storm.

Lesson 2: Stay on (the Long-Term) Course

Because no one can predict the market's ups and downs, it's critical to develop a goals-based financial plan that creates a safety net, while helping you achieve your specific goals. Like a captain preparing his navigation plan, it's important to stay on course so you may reach your destination on schedule. But when waters get rough, it may be necessary to temporarily steer away from any turbulence. Making short-term shifts may mean you arrive at your destination slightly later than planned, but you'll likely arrive more safely.

Lesson 3: Reduce Volatility

Smart boaters know the importance of relying on the fundamental skills they acquired when first learning how to navigate their vessel. The same is true with investing. Two proven techniques to help reduce volatility in your portfolio are asset allocation and diversification. These strategies determine how to distribute your investment dollars among the major asset classes of stocks, bonds and cash. The key to effective asset allocation and diversification is understanding both risk and return, since various asset classes tend to have different risk and return characteristics relative to one another. By investing in a manner that is reflective of your risk tolerance level, you can help reduce overall volatility. Too much volatility at the wrong time can sink a strategy.

Lesson 4: Secure Your Portfolio to Weather Volatility

In times of market uncertainty, it's important to stay calm, stay alert and stay focused. Different environments call for different strategies. I encourage my clients to adopt these five wealth protection strategies that are designed specifically to address market volatility:

1. **Slow down and reduce risk. In boating, when visibility is foggy, it's prudent to slow down.** The same is essential when the market outlook is uncertain. It's important to tread cautiously and adopt a more conservative approach. This is especially true the closer you get to retirement, since you'll have less time to rebound from significant swings in your portfolio.

2. **Focus on quality.** During challenging markets, invest in high quality, blue chip companies with healthy balance sheets, strong cash flow that pay a good dividend.

3. **Ladder fixed income securities.** Purchase quality bonds in which each security has a different maturity date to minimize interest-rate risk and increase liquidity within your portfolio.

4. **Increase liquidity.** Plan to have more cash on hand so you can take advantage of new market opportunities as well as be better prepared for any financial surprises that come your way.

5. **Demand transparency.** Know the details of where your money is invested and the ramifications of volatility on those investments. For instance, what if interest rates go up in two to three years, or the equity markets fluctuate 15% to 20% or more? How are your investments likely to react? Understanding the characteristics of each investment within your portfolio empowers you to make smart decisions about your finances before the impact of volatility strikes.

Navigating Your Portfolio

Over the past three decades, the markets have experienced their share of turbulence and volatility. Today's markets seem no different. In fact, some would say we are in unchartered waters due to the political and economic environment both domestic and abroad.

To protect the wealth you've built so you may stay the course in accomplishing your long-term goals, it's important to talk to your financial advisor on a regular basis to review your current strategy and ensure it is structurally sound to withstand today's challenging markets.

About the Author

Robert D. Finan is a Senior Vice President, Financial Advisor and founding member of the Finan Group at Morgan Stanley. A wealth management professional for more than 33 years, Bob has dedicated his entire career to helping individuals, families and business owners achieve their financial goals. His approach focuses on a comprehensive wealth management plan and a commitment to providing outstanding service and advice. Robert Finan was named to the *Financial Times*' list of America's Top 400 Advisors in 2015.

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Robert Finan is a Financial Advisor with Morgan Stanley Global Wealth Management in Red Bank, New Jersey. The information contained in this article is not a solicitation to purchase or sell investments. Any information presented is general in nature and not intended to provide individually tailored investment advice. The strategies and/or investments referenced may not be suitable for all investors as the appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Morgan Stanley Smith Barney, LLC, member SIPC.

CRC # 1493177

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