



THE SOCIETY FOR FINANCIAL AWARENESS
DC Metropolitan Chapter www.dcsdfa.org

NAVIGATING MARKET VOLATILITY



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AGENDA

- Exploring and understanding market volatility
- How to manage 'mental risk'
- Understanding investor behavior and your own strengths, weaknesses and preferences
- Navigating your new TSP fund choices – where to begin with mutual funds
- Understanding market corrections and how to avoid common investing mistakes



What is Market Volatility?

Volatility is when the market makes dramatic moves one way or the other.

What is a Correction?

Technically speaking:

- Pullback = **5% - 9%**
- Correction = **10% - 19%**
- Bear Market = **20% or more**



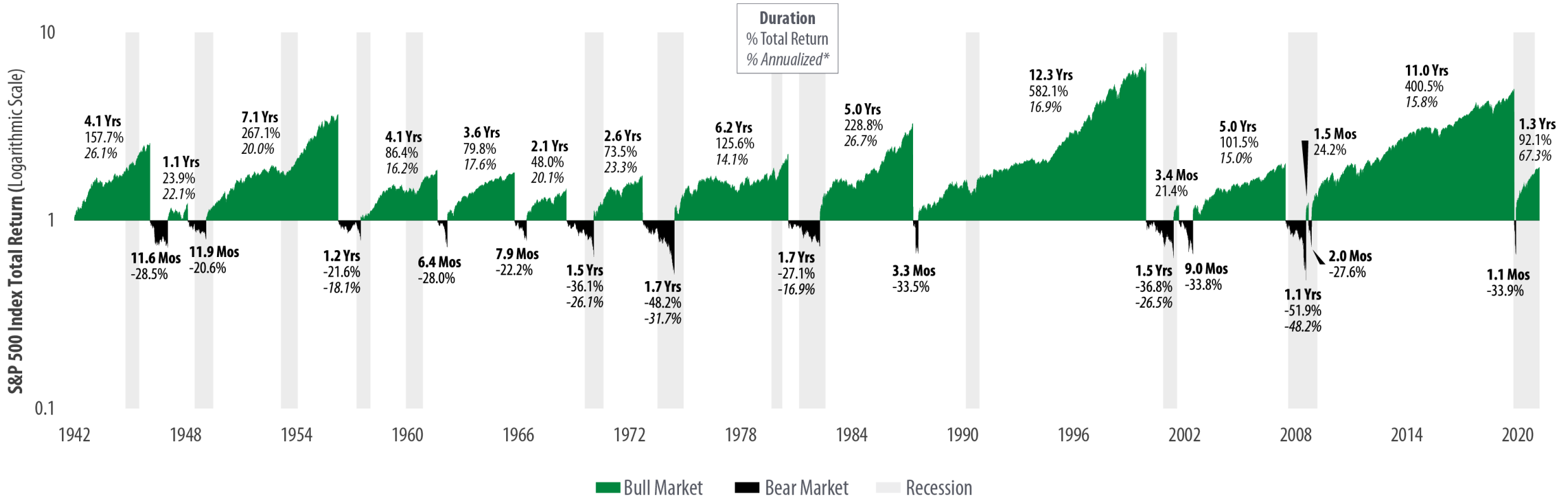
Let's put it into context ...

- Historically:
 - 27 corrections in the S&P 500 from 1945 – 2022 (drop of 10%-19%)
 - **AVERAGE OF ONE CORRECTION EVERY 2.8 YEARS**
 - 5 of those market corrections since 1974 have turned into bear markets (drop of 20% or more)

- SOURCE:
<https://www.forbes.com/advisor/investing/what-is-market-correction/>.
Accessed 2/24/22.

Historical Performance of the S&P 500 Index during U.S. bull and bear markets

The bold numbers calculate the duration of months for the market, either being bull or bear, and the percentages cover the total return for the time period.¹



Source: <https://www.invesco.com/us-rest/contentdetail?contentId=049233173f5c3510VgnVCM100000c2f1bf0aRCRD&audienceType=investors>. Accessed 7/30/21.

In the chart above, the green time periods indicate bull markets when the S&P 500 rose 20% or more from its previous low. The gray time periods indicate bear markets when the S&P 500 declined 20% or more from its previous high. On average, when the market is evaluated from 11/29/68–12/31/20, there were bear markets or losses for 349 days, while the bull markets or gains were for 1,764 days. Data shown is as of the last bull market through 12/31/2020.

¹ Source: Bloomberg L.P. Returns from 11/29/68–12/31/20.

The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.



What Triggers Market Volatility?

What Triggers Market Volatility?

Profit selling

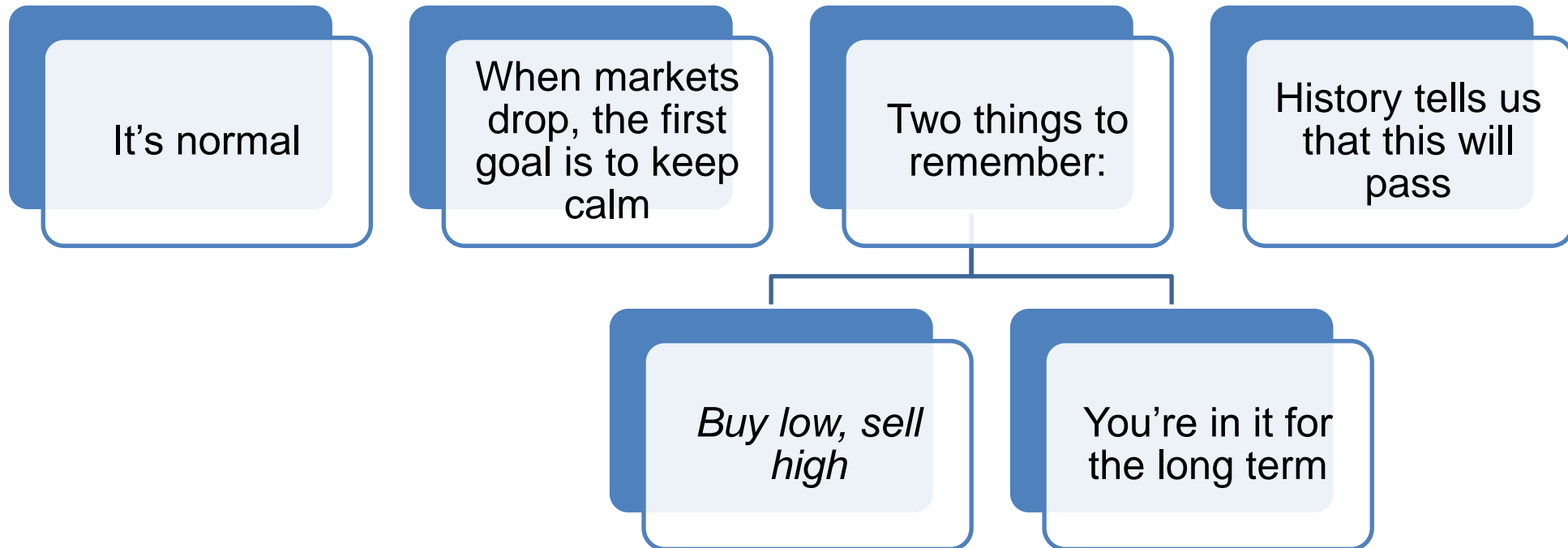
Corporate earnings

Technical analysis

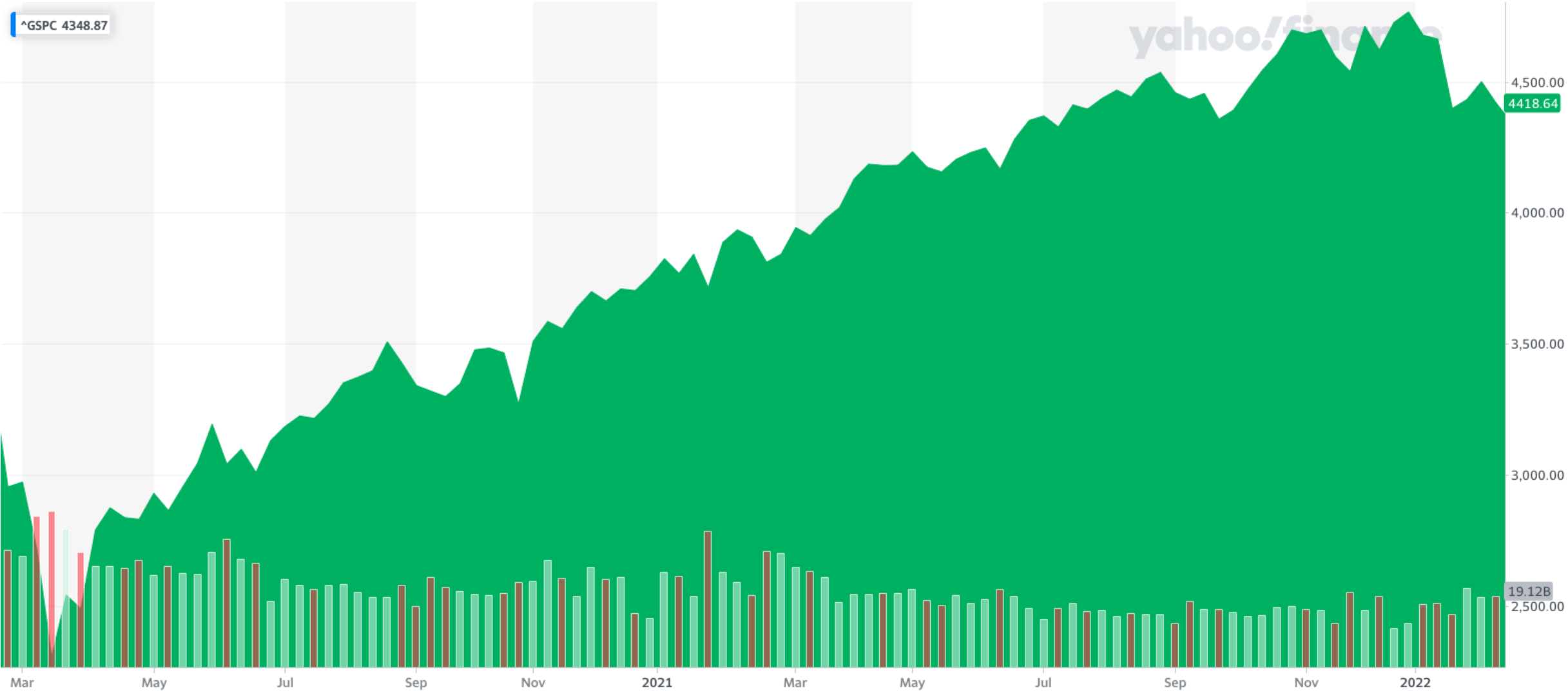
Fear

Black Swan events

What does a market correction mean to my investments?



S&P 500 March 2020 to February 2022



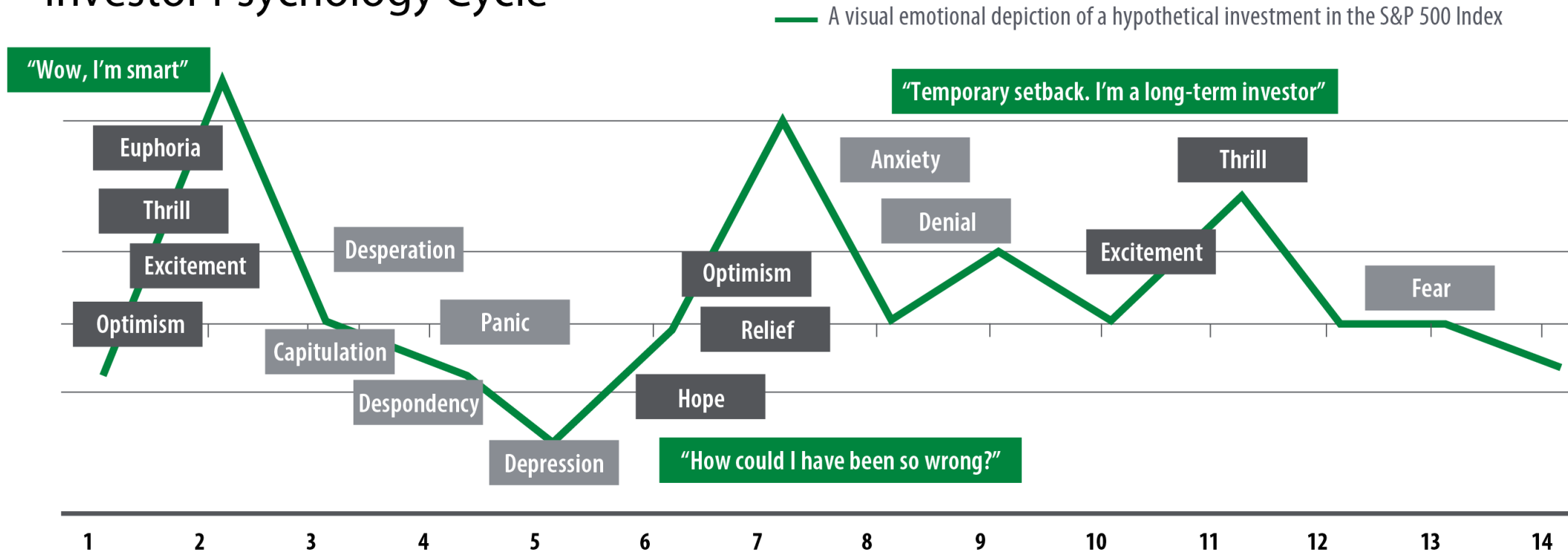
Source: Yahoo! Finance.

“OK ... I get it, but I’m still worried.”



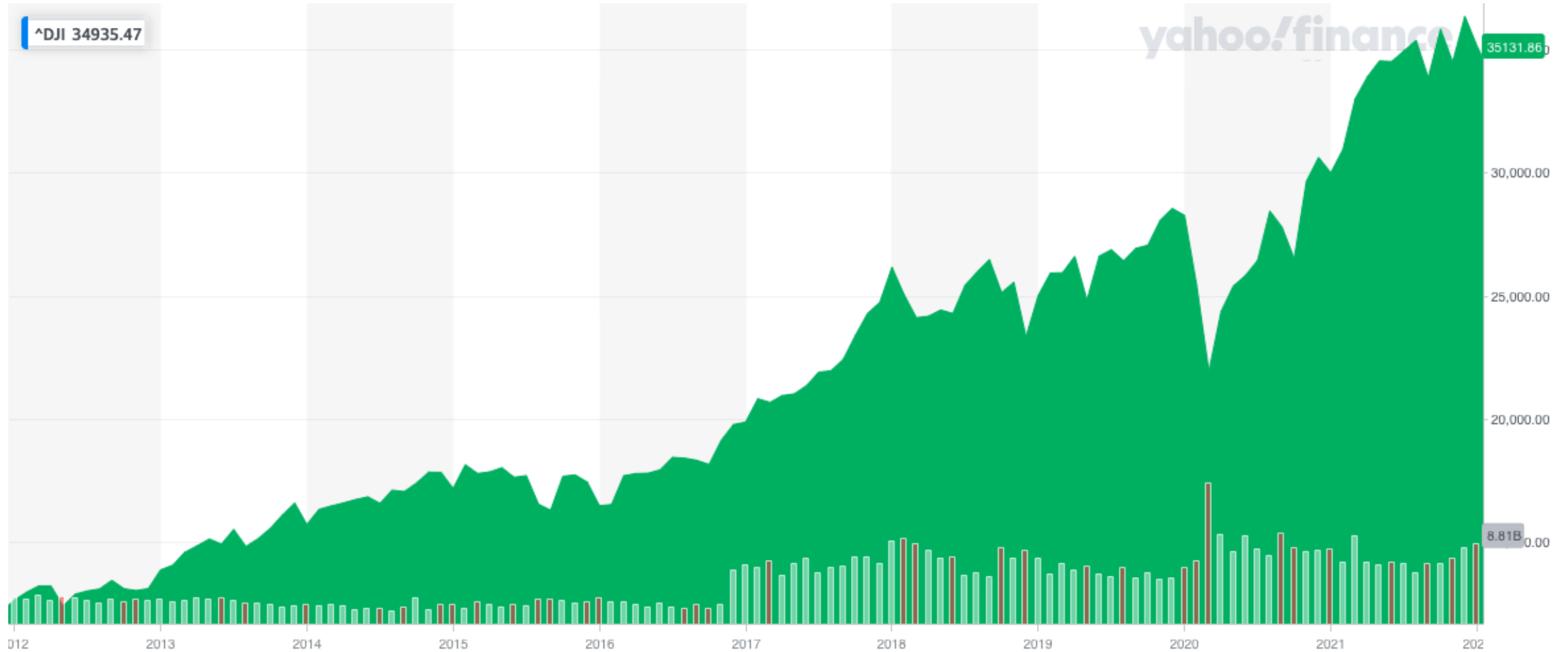
Worry is normal

Investor Psychology Cycle



Source: <https://www.investing.com/analysis/how-to-interpret-and-profit-from-a-depreciation-cycle-200615544>

Corrections and bear markets happen ... and then they recover



Source: Yahoo! Finance.

A black and white photograph of a black bear standing in a rocky crevice. The bear is positioned on the left side of the frame, facing right. The background consists of large, layered rock formations. The text "The bear ultimately retreats" is overlaid in white, bold, sans-serif font across the center of the image.

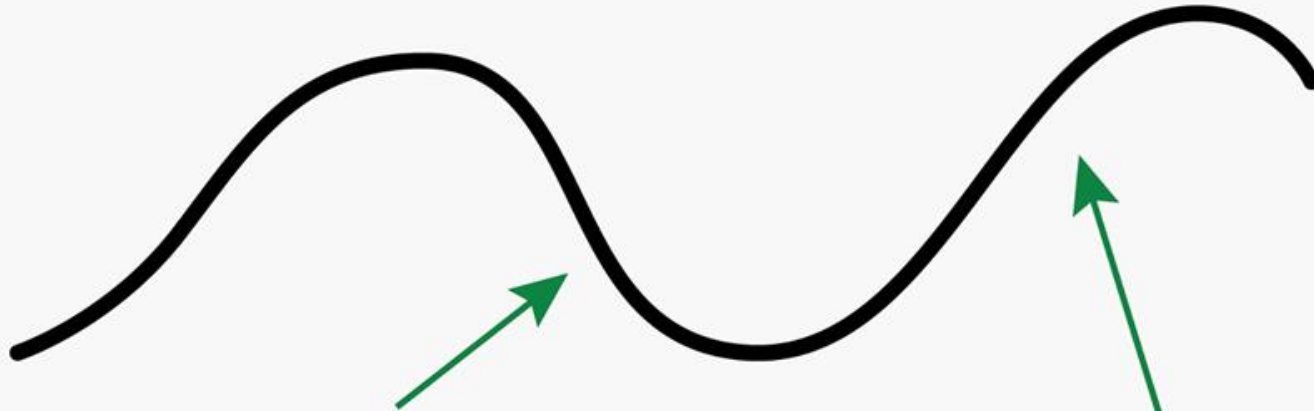
The bear ultimately retreats

“Sure, that’s all great, but ...”



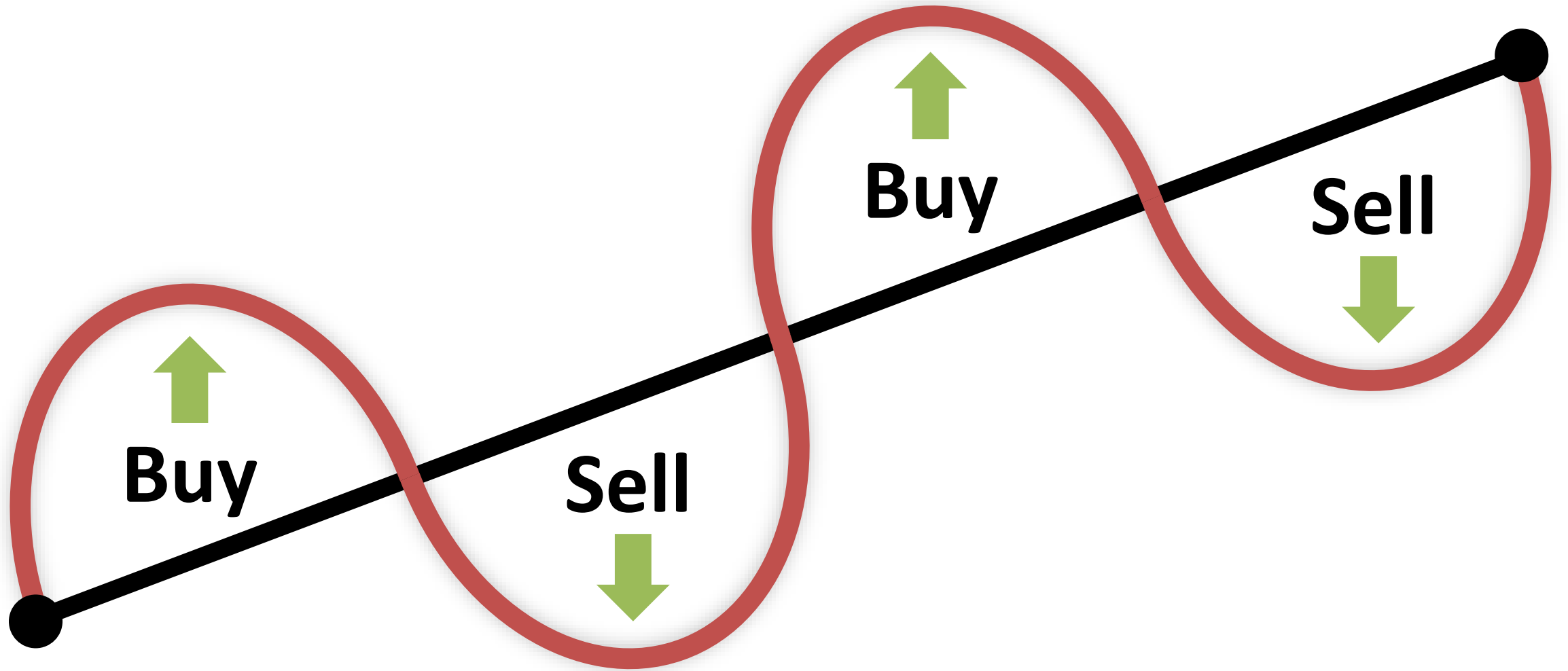
We call this “investor” dyslexia

How not to deal with a scary market



I want to sell here. But I plan to get back in when the market "clears up" ... about here

Emotional Investing in Stock Market



4 Key Factors to Navigating Market Volatility



Know Your **Withdrawal Rate %**



Know what your **asset allocation** is



Understand how to **distribute Income in Retirement**



Know what **type of Consumer** you are

Average Stock Market Returns

	Investor	S&P 500
30 Year	4.1%	10.0%
10 Year	9.7%	13.1%
1 Year	(-9.4%)	(-4.4%)

Returns are for the period ending December 31, 2018. Average equity investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by change in total mutual fund assets after excluding sales, redemptions and exchanges. Source: Quantitative Analysis of Investor Behavior (QAIB), Dalbar.

Timing the market doesn't work!

You have to be right TWICE

- Sell right
- Buy right

What are the odds of that happening?

What Type Of Financial Consumer Are You?



Do It Yourselfer

- You love coming to financial seminars.
- You can't wait to be **your own full-time advisor** in retirement.



Not Sure/ Undecided

- You can handle the finances but not sure you want to.
- You can tolerate financial speak but unclear if you want to think about this in retirement.



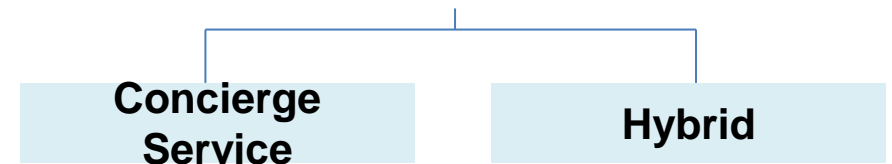
100% I'm Not Doing It!

- You are in pursuit of finding the right advisor and relationships matter to you.

This doesn't mean!!

You don't hand over all the controls.

2 paths most people explore:-



Have you ever had someone telling you "Oh it's not hard, you can do it"



“Maybe we should switch investment strategies?”

Annual Returns for Key Indices – 01.01.2001 – 12.31.2021 - Ranked in order of performance (Best to Worst)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Best	Commodity 25.81%	Small Cap Growth 48.54%	Mid Cap Value 23.71%	Commodity 21.36%	Foreign Stocks 26.34%	Commodity 16.23%	Intern. Term Bond 5.24%	High Yield 58.21%	Small Cap Growth 29.09%	Intern. Term Bond 7.84%	Mid Cap Value 18.51%	Small Cap Growth 43.30%	Mid Cap Value 14.75%	Large Cap Growth 5.87%	Small Cap Value 31.74%	Large Cap Growth 30.21%	Short Term Bond 1.80%	Large Cap Growth 36.39%	Large Cap Growth 38.40%	Mid Cap Value 28.34%
	Intern. Term Bond 10.26%	Small Cap Value 46.03%	Small Cap Value 22.25%	Foreign Stocks 13.54%	Small Cap Value 23.48%	Large Cap Growth 11.81%	Short Term Bond 4.97%	Mid Cap Growth 46.29%	Mid Cap Growth 26.38%	High Yield 4.98%	Small Cap Value 18.05%	Mid Cap Growth 35.74%	Large Cap Value 13.45%	Short Term Bond 0.65%	Mid Cap Value 20.00%	Mid Cap Growth 25.27%	Intern. Term Bond 0.01%	Mid Cap Growth 35.47%	Mid Cap Growth 35.50%	Small Cap Value 28.27%
	Short Term Bond 6.28%	Mid Cap Growth 42.71%	Foreign Stocks 20.25%	Mid Cap Value 12.65%	Large Cap Value 22.25%	Mid Cap Growth 11.43%	High Yield -26.16%	Large Cap Growth 37.21%	Mid Cap Value 24.75%	Large Cap Growth 2.64%	Large Cap Value 17.51%	Small Cap Value 34.52%	Large Cap Growth 13.05%	Intern. Term Bond 0.55%	Large Cap Value 17.34%	Foreign Stocks 25.03%	Large Cap Growth -1.51%	Small Cap Growth 28.48%	Small Cap Growth 34.83%	Large Cap Growth 27.60%
	High Yield -1.41%	Foreign Stocks 38.59%	Large Cap Value 16.49%	Mid Cap Growth 12.10%	Mid Cap Value 20.22%	Foreign Stocks 11.17%	Small Cap Value -28.92%	Small Cap Growth 34.47%	Small Cap Value 24.50%	Short Term Bond 1.50%	Foreign Stocks 17.32%	Large Cap Growth 33.48%	Mid Cap Growth 11.90%	Mid Cap Growth -0.20%	High Yield 17.13%	Small Cap Growth 22.17%	High Yield -2.08%	Mid Cap Value 27.06%	Diversified Portfolio 13.07%	Commodity 27.11%
	Diversified Portfolio -8.82%	Diversified Portfolio 30.32%	Mid Cap Growth 15.48%	Diversified Portfolio 7.98%	Diversified Portfolio 13.44%	Small Cap Growth 7.05%	Diversified Portfolio -29.14%	Mid Cap Value 34.21%	Diversified Portfolio 16.91%	Large Cap Value 0.39%	High Yield 15.81%	Mid Cap Value 33.46%	Intern. Term Bond 5.97%	Foreign Stocks -0.81%	Commodity 11.77%	Diversified Portfolio 13.74%	Mid Cap Growth -4.75%	Large Cap Value 26.54%	Foreign Stocks 7.82%	Large Cap Value 25.16%
Performance	Mid Cap Value -9.84%	Mid Cap Value 38.07%	Small Cap Growth 14.31%	Large Cap Value 7.05%	Small Cap Growth 13.35%	Intern. Term Bond 6.97%	Commodity -35.65%	Foreign Stocks 31.78%	Commodity 16.83%	Mid Cap Value -1.38%	Mid Cap Growth 15.81%	Large Cap Value 32.53%	Small Cap Growth 5.80%	Small Cap Growth -1.38%	Diversified Portfolio 11.69%	Large Cap Value 13.68%	Diversified Portfolio -8.77%	Diversified Portfolio 21.19%	Intern. Term Bond 7.51%	Diversified Portfolio 15.14%
	Small Cap Value -11.43%	Large Cap Value 30.03%	Diversified Portfolio 13.15%	Large Cap Growth 5.20%	High Yield 11.85%	Short Term Bond 6.83%	Large Cap Value -36.85%	Diversified Portfolio 28.28%	Large Cap Growth 16.71%	Mid Cap Growth -1.65%	Large Cap Growth 15.26%	Foreign Stocks 22.78%	Diversified Portfolio 4.57%	Diversified Portfolio -3.70%	Small Cap Growth 11.32%	Mid Cap Value 13.34%	Large Cap Value -8.27%	Small Cap Value 22.39%	High Yield 7.11%	Mid Cap Growth 12.73%
	Large Cap Value -15.52%	Large Cap Growth 26.75%	High Yield 11.13%	Small Cap Value 4.71%	Mid Cap Growth 10.66%	Diversified Portfolio 5.64%	Large Cap Growth -38.44%	Small Cap Value 20.58%	Large Cap Value 15.51%	Diversified Portfolio -1.77%	Small Cap Growth 14.59%	Diversified Portfolio 21.12%	Small Cap Value 4.22%	Large Cap Value -3.83%	Mid Cap Growth 7.33%	Small Cap Value 7.84%	Small Cap Growth -9.31%	Foreign Stocks 22.01%	Mid Cap Value 4.96%	Foreign Stocks 11.26%
	Foreign Stocks -15.94%	High Yield 28.97%	Commodity 9.15%	Small Cap Growth 4.15%	Large Cap Growth 9.07%	High Yield 1.87%	Mid Cap Value -38.44%	Large Cap Value 19.69%	High Yield 15.12%	Small Cap Growth -2.91%	Diversified Portfolio 12.48%	High Yield 7.44%	High Yield 2.45%	High Yield -4.47%	Large Cap Growth 7.08%	High Yield 7.50%	Commodity -11.25%	High Yield 14.32%	Small Cap Value 4.83%	High Yield 5.28%
	Mid Cap Growth -27.41%	Commodity 23.93%	Large Cap Growth 6.30%	High Yield 2.74%	Intern. Term Bond 4.33%	Large Cap Value -0.17%	Small Cap Growth -38.54%	Commodity 18.91%	Foreign Stocks 7.75%	Small Cap Value -5.50%	Intern. Term Bond 4.21%	Short Term Bond 0.64%	Short Term Bond 0.77%	Mid Cap Value -4.78%	Intern. Term Bond 2.65%	Intern. Term Bond 3.54%	Mid Cap Value -12.29%	Intern. Term Bond 8.72%	Short Term Bond 3.33%	Small Cap Growth 2.83%
	Large Cap Growth -27.88%	Intern. Term Bond 4.10%	Intern. Term Bond 4.34%	Intern. Term Bond 2.43%	Short Term Bond 4.25%	Mid Cap Value -1.42%	Foreign Stocks -43.38%	Intern. Term Bond 5.93%	Intern. Term Bond 6.54%	Foreign Stocks -12.14%	Short Term Bond 1.26%	Intern. Term Bond -2.02%	Foreign Stocks -4.90%	Small Cap Value -7.47%	Short Term Bond 1.28%	Commodity 1.70%	Small Cap Value -12.86%	Commodity 7.89%	Large Cap Value 2.80%	Short Term Bond -0.47%
	Small Cap Growth -30.26%	Short Term Bond 2.81%	Short Term Bond 1.30%	Short Term Bond 1.77%	Commodity 2.07%	Small Cap Value -9.78%	Mid Cap Growth -44.32%	Short Term Bond 3.82%	Short Term Bond 2.80%	Commodity -13.32%	Commodity -1.06%	Commodity -9.52%	Commodity -17.01%	Commodity -24.06%	Foreign Stocks 1.00%	Short Term Bond 0.84%	Foreign Stocks -13.79%	Short Term Bond 4.03%	Commodity -3.12%	Intern. Term Bond -1.54%
Worst	Commodity 1.78%	Short Term Bond 2.50%	Intern. Term Bond 4.33%	Foreign Stocks 6.33%	High Yield 7.84%	Diversified Portfolio 7.99%	Large Cap Value 8.34%	Small Cap Value 9.18%	Small Cap Growth 9.20%	Mid Cap Value 10.52%	Mid Cap Growth 10.81%	Large Cap Growth 10.86%								

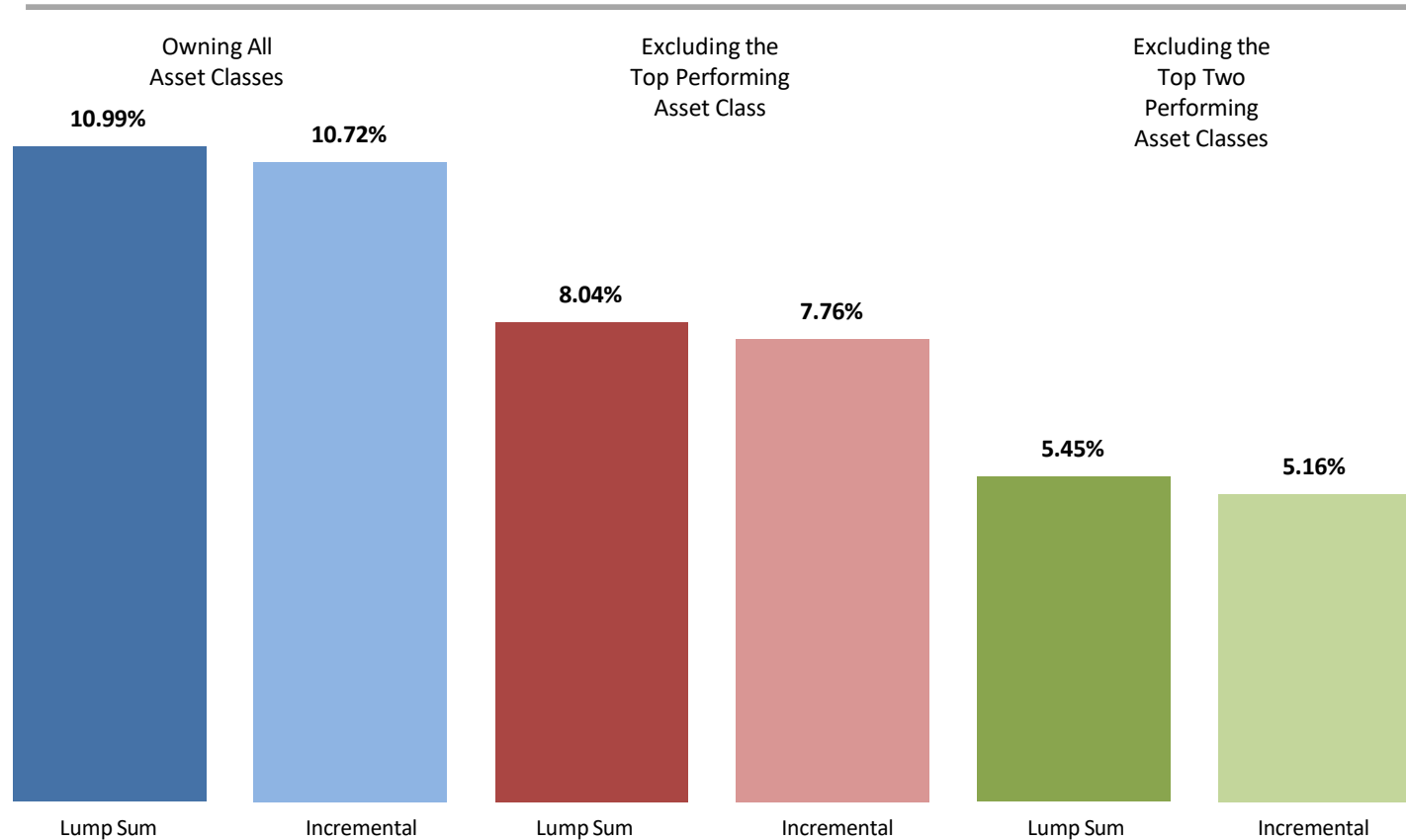
Finding the “hot dot”

Calculations provided by Sterling Capital Management, using information from Morningstar Direct and Thomson Reuters InvestmentView.

Past performance does not guarantee future results. This chart is for illustrative and educational purposes only and represents the performance of the key indices. It is not possible to invest in an index. Please see the attached disclosure page for a description of the representative indices.

Missing Opportunity

Actual Annualized Returns from 1973-2021



Source: 49 Year performance figures taken from Dimensional Fund Advisors (DFA) Returns software 12/21. Some data provided to DFA by the Center for Research & Security Pricing (CRSP), University of Chicago. US Large Company stocks are represented by the S&P 500 Index; US Large Value stocks are represented by Fama/French US Large Value Research Index; US Small Company stocks are represented by CRSP 9-10 Index; US Small Value stocks are represented by Fama/French US Small Value Research Index; International Large stocks are represented by MSCI EAFE Index (Gross Div.); International Small stocks are represented by International Small Company Index; Long Term Bonds are represented by Long Term Government Bond Index; Short Term Fixed Income is represented by BofA Merrill Lynch 1 yr US Treasury Note Index; and Cash is represented by One Month T-Bills. This material has been obtained from sources generally considered to be reliable. No guarantee can be made to its accuracy. Not intended to represent the performance of any particular investment. Indices are unmanaged and one cannot invest.

All investing involves risk and costs. Your advisor can provide you with more information about the risks and costs associated with specific programs. No investment strategy (including asset allocation and diversification strategies) can ensure peace of mind.

4 things to do during times of market volatility

1. Be patient.
2. Don't overthink it.
3. Resist your emotional instincts.
4. Stay diversified.





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