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Keep Investment Approach Rational in Volatile Times

Stock markets fluctuate. That's a given. Nonetheless, even when you recognize that fact, market volatility can still make your heart beat faster. And, it's understandable. If not placed into the context of either market history or your investment horizon, a significant drop in the markets can wreak havoc on your nervous system.

However, the likelihood of incurring any permanent damage to your portfolio is dependent on your investment plan. If your portfolio is stocked with quality investments and the mix is right for your timeline, you have very little to worry about. When the markets turn around, as they always do, good investments will rebound and continue to grow. Soon you'll look back and wonder what all the fuss was about.

It sounds simple, but it's easier said than done when investors are constantly bombarded with increasingly negative media reports *that have more to do with the media than the markets.* When multitudes of media all vie for our eyes and ears with the same information, there is only one way for them to compete. Each must deliver it in an edgier manner than their competition.

The facts may be the same but ever-keener reporting causes jitter. Investors may dismiss one report as rhetoric but the cumulative effect, *of all media putting an excitable edge on the same facts,* can cause investors to doubt the wisdom of their investment plans and become nervous. They forget that, with high quality businesses, *volatility does not mean risk*. But portfolio risk *is* created when knee-jerk reaction replaces rational thought.

Nervous investors generate risk in their portfolios by making short-term investment decisions during times of market volatility. They get scared and run for the hills. They say, "sell everything", when in most cases, they are selling at absolutely the worst possible time. The universally accepted concept of "buy low - sell high" is often tossed out the door as soon as market volatility comes into play. Investors try to 'cut their losses', when in reality they are only turning paper losses into *real losses* when good stocks return to their intrinsic values.

Think about it. Does manic-depressive behavior in the markets really mean that well managed and solidly performing companies are suddenly not? Take Coca-Cola as an example. Their stock is down over 10% year-to-date, yet it is a very solid company with a great revenue base, a well-diversified range of products, and significant potential. It will undoubtedly bounce back and continue along its path of profitability. One of the largest holders of Coca-Cola is Warren Buffett, who advises "…identify good businesses, attempt to buy them at good prices, and hold them for the long term."

Market volatility is not your worst enemy. Fear is. If you keep that in mind, I guarantee you'll sleep better at night. Why is that? Because your fear should be eased by a well laid-out investment plan. If you have a solid plan and stick to it, you can trust that it will pull through. Markets will continue to have rough patches but rest assured that, in the end, they will rebound. They always have.

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