INNOVEST

THREE STEPS TO SUCCESSFULLY NAVIGATE THIS MARKET'S VOLATILITY

Whether labeled "corrections" or "bear markets," falling asset prices are painful. The biggest dangers for investors facing this pain and bad news are to abandon their long-term focus and their disciplined approach to investing.

So what are the right things to do in these circumstances? Here are three highly effective and proven steps to take in the midst of volatility and uncertainty.

1

Understand that volatility is the norm.

Ten percent declines in the U.S. stock market tend to happen on average about once a year, and 20% or greater downdrafts about once every three to four years. The U.S. stock market was about three years overdue for a 10% or greater decline, as the last one occurred in 2011. So while sharp downdrafts in stock prices are very unpleasant, they are part and parcel of the investing experience.

With the exception of high-quality bonds, nearly all types of global investments, including equities and commodities, have recently fallen sharply. What appears to be besetting the global markets is the fear that China, the world's second-largest economy, is slowing to 7% or less growth--the slowest growth rate in more than 25 years. China recently devalued its currency, in part to make its exports more competitively priced. Keep in mind that China accounts for only seven percent of American exports, which represents less than one percent of U.S. GDP. The markets are concerned that China's economy is weaker than reported, and that this economic slump may spread to other regions.

2

Resist the temptation to time the markets.

It's part of human nature to avoid pain in all of its forms. Sharp, sudden, and sometimes prolonged drops in the value of investments are painful to endure. The temptation for investors (i.e., the wrong thing to do) is two-fold: First, to try to "stop the pain" after having experienced losses by moving to cash or other conservative investments. The second serious danger is for investors to believe that they will have foresight and fortitude to move from cash back into the markets at cheaper prices.

In reality, investors tend to sell risky assets after the majority of the losses have already occurred, and then get back in to the markets only after investments have moved much higher from their lows. The vast majority of investors feel better about moving to a more conservative risk/reward profile after markets have fallen significantly, and vice versa. Despite the allure of market timing, Innovest has not found any investors, professional or otherwise, who have demonstrated the repeated and consistent ability to time the markets.

3

Keep calm and rebalance.

Fixating on volatility in the short term will make it very difficult to remain focused on your long-term goals. A highly effective alternative is to rebalance your portfolio on an ongoing basis. Rebalancing entails taking some profits out of those investments that have performed the best, and adding to those investments that are the most depressed in value--and have the highest potential for performing better on a forward basis.

Portfolio rebalancing is an effective tool to avoid having the lowest exposure to stocks and other growth assets at the bottom of a market, and alternatively having the highest exposure at market peaks. Ongoing rebalancing keeps the risk/reward of your portfolio in sync with your long-term goals.

CONCLUSION

No one can successfully predict how long this current downdraft will last, how deep it will go, or when the market will start going back up. Relatively risky investments could drop more from here, or they could go right back up again.

Regardless of how the markets react in coming weeks and months, taking the aforementioned three steps is the time-tested and proven way for successful and patient investors to achieve their long-term goals.