'Doing something' when the markets are volatile, research tells us to 'Stay the course'

During my nearly 25 year career, I find that during times of increased market volatility a few of our 'newer clients' who have not experienced downturns or who have had poor experiences with other firms or advisors, will ask why we are not 'trading more' or 'moving things' around or 'moving to the sidelines and waiting until the market improves'. The theory being that heavy movement into and out of the market(s) leads to improved investment returns.

While 'moving to the sidelines' may seem like it will positively impact the portfolio and lead ultimately to improved investment performance, it generally has not proven to be the right antidote for lessening market volatility. In fact, a good amount of research that I've evaluated indicates that 'getting out' and sitting on the sidelines is a bad idea. One such piece published by Franklin Templeton via Ned Davis Research 2014, indicates that for the 20 years ending December 31, 2014 that staying invested and not moving to the sidelines has some merit:

Period of Investment	***Average Annual Rate of Return for the S&P 500***
Staying fully invested	9.85%
Missed the 10 Best Days	6.11%
Missed the 20 Best Days	3.63%
Missed the 30 Best Days	1.50%
Missed the 40 Best Days	-0.45%

(For illustrative purposes only. The S&P is an unmanaged index. It is not possible to invest directly into the index.)

'Staying invested' does not mean that internally we are not looking for opportunities. Most portfolios are being altered within the Institutional mutual funds, Exchange Traded Funds (ETF's), or Individual Securities that are contained within their specific investment allocation. We would love to say we get every trade right but that is not the case. Some investment choices will take a while to materialize or may never materialize into positive trades. However, if we've done our homework and understand the clients' objectives and risk tolerance we will generally stay with the overall allocation for a good period of time.

In conclusion, it is easy for clients to become overwhelmed by the constant barrage of 24 hour financial coverage they receive. However, if *investors stay invested* …whether the market(s) are up or down today, or tomorrow, or this month, or the next month, will not be the determining factor to their success. Staying the course and within their unique risk tolerance should be their focus.

Research from: Franklin Templeton '5 Things you need to know to ride out a Volatile Stock Market'