Why Investor Discipline Matters When Markets Are Calm

The stock market has performed well not only over the past year, but since the beginning of 2017. Over this three-year period, the S&P 500 has risen by over 45%. Investors who were able to stay invested through the volatility of late 2018 and during turbulent periods of 2019 have been rewarded.

Markets have generated great returns despite a constant "wall of worry." This is still the case with heightened focus on geopolitical unrest in the Middle East and global trade. So far in 2020, markets have taken these developments in stride, with only a couple of small pullbacks. However, not only could these issues intensify over the course of the year, but the upcoming presidential elections could spur investor concerns. Unforeseen events are bound to occur as well.

Investors should remember that it's completely normal for this to happen. Just as pilots often remind passengers to keep their seatbelts fastened even when the air is calm, periods of optimism like the present are the best times for investors to stay balanced and prepare for future uncertainty. After all, as any long-term investors knows, such low levels of volatility are unsustainable, and markets don't rise in a straight line indefinitely. Even though we neither hope for nor anticipate a significant market pullback in the near-term, it's still important to be prepared nonetheless.

Ultimately, investing and achieving long-term goals are as much about our behavior as they are about having appropriate financial plans. For long-term investors, the answer to market volatility isn't to jump in and out of the market. Instead, it's to stick with a well-balanced portfolio that can weather any storm, and that allows one to sleep well at night too.

Even experienced investors can overreact to short-term headlines that drive fear and panic. Those investors who are better equipped to handle this by staying invested and diversified, especially by preparing when markets are calm, are in a better position to achieve their goals.

Below are three charts that put recent market calm in perspective:

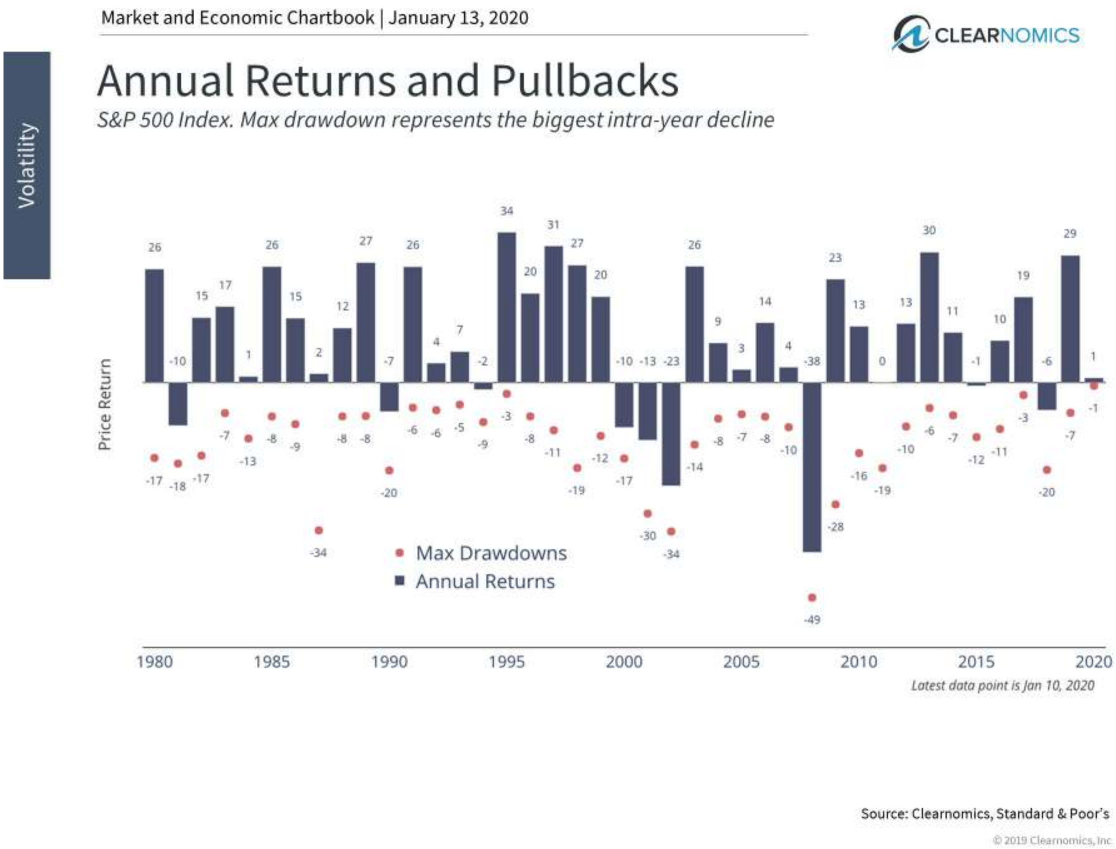
1. Stocks have risen swiftly over the past year

Stock Market Returns in Perspective
Find this chart under "U.S. Stock Market"

Global markets have risen quickly over the past year. Periods of volatility in 2019 were short and followed by significant market rallies. In fact, all major asset classes behaved this way. Investors should take advantage of the current market calm to focus on staying disciplined.

2. Volatility has been quite low

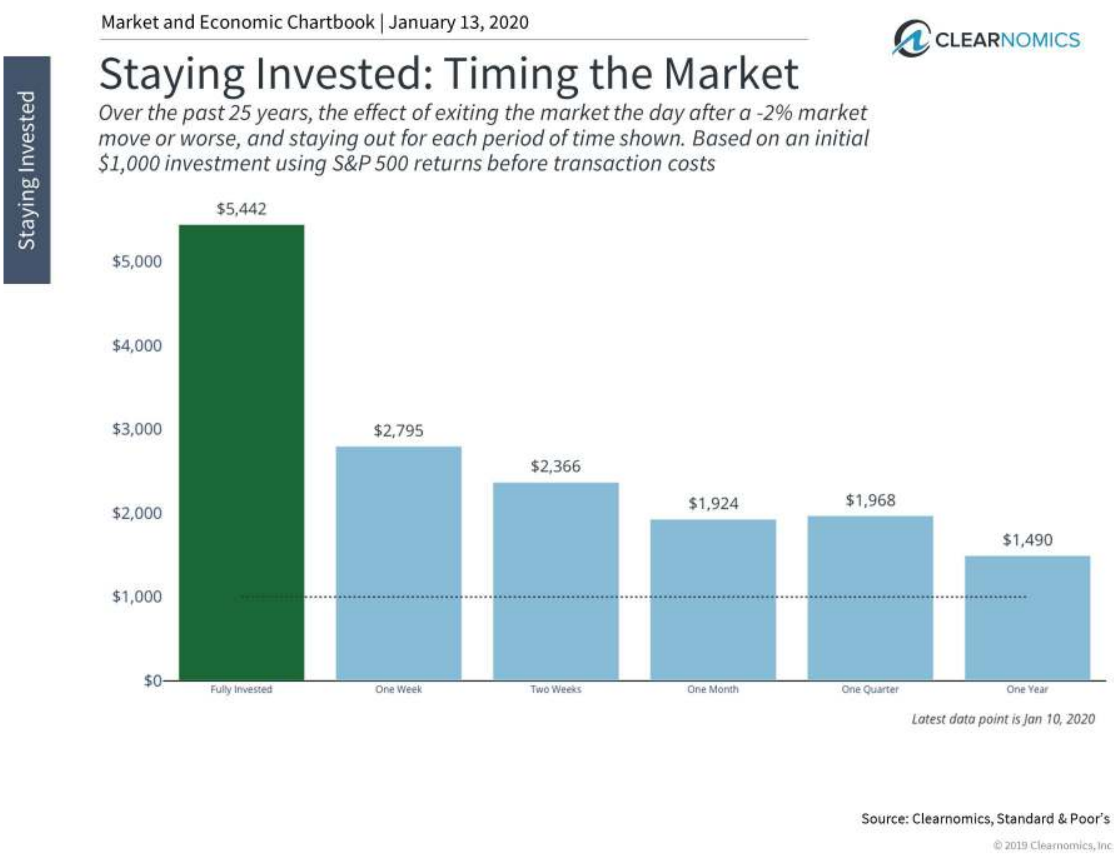
Annual Returns and Pullbacks
Find this chart under "U.S. Stock Market"



Battling our own natural tendencies is one of the challenges of investing. This is especially true today since the relative market calm of the past year may have left some investors unprepared for rising volatility. The largest intra-year decline in 2019 was only 7%, roughly half of the historical average.

3. Staying invested is the most important investment discipline

Staying Invested: Timing the Market
Find this chart under "Volatility and Staying Invested"



Of all of the factors that drive investment returns, perhaps none is more important than simply staying invested. Attempting to time the markets by jumping in and out when pullbacks occur is often worse than simply staying put. Investors should remember this when markets face their next period of turbulence.

The bottom line? Markets have been relatively calm over the past year. Now is the best time for investors to prepare for how they will react to future volatility.

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