



MAKING CENTS

DON'T LET MARKET'S CRAZY WEEK KEEP YOU UP



-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®

Weeks like last week make almost all investors nervous and lead them to second guess their strategies.

In your nervous state, you start to read everything that you can get your hands on about investments and even turn on those dreaded hour-by-hour TV shows talking about every micro move that the markets take.

One word frequently bantered about at times like these is volatility. Volatility is the degree of change that one may encounter from an investment.

An aggressive investment typically has a high degree of volatility, meaning that the range of possibilities for the value of that investment may be very wide. This would be true for an investment in a company or a piece of commercial real estate, but not so for a bank account.

In the 1980s, two professors actually created an index that is alleged to track the volatility of U.S. equity markets. This index is also frequently quoted and referenced in the media as the investor fear gauge and used by traders to hedge against a possible decline in their portfolios.

Another concept regularly discussed is that of correlation. Correlation is the theory that examines how different asset classes and market sectors behave during different market cycles. It was believed that

good diversification amongst investment classes that historically have not correlated highly would limit your volatility.

Then comes a time like 2008, where many different asset classes performed in concert with each other, and it wasn't beautiful music.

A week like we've just seen is again testing the theories about correlation and volatility.

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The only fact that I can rely on about markets is that they will change. They may go up and they may go down, and exactly when the direction is going to change is always unknown. That said, don't beat yourself up for taking losses during times of extreme volatility. Instead, ask yourself how much volatility you can tolerate.

If you can achieve your life objectives by not exposing yourself to volatility, then seriously consider it -- the current low rates offered by guaranteed deposits with banks or insurance companies may be the right call for you.

Remember that banks and insurance companies are not risk-free; they can fail, too. Checking out the financial stability of any institution where you've placed your guaranteed investments is still very important.

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