BROADSTONE ADVISORS

Strategic Planning

A Handbook for Avoiding Mistakes During Market Volatility

By Kevin Reich, CFA®

This weekend, my family and I are taking a long road trip, and despite the fun and relaxation awaiting us at the destination, I'm not exactly looking forward to long hours spent sitting in the car. Trips like this remind me of how we might think about investing: traffic, unexpected stops, and other challenges await. But the question – like in investing – is how we prepare and respond.

Today, we want to share a simple guide for navigating the inevitable periods of volatility on the investing journey. A good risk management approach, we think, is not to eliminate volatility altogether, but to prepare for it, navigate through it, and stay focused on where you are trying to go. When volatility arrives, it's easy to forget the good times, and possibly overreact in ways that are misaligned with our goals.

Here are three important tools that can help investors maintain perspective during challenging periods.

1. Picture your destination

Early in my career, I worked with a client who was very nervous about market volatility as she began her investing journey. No discussion of long-term market returns, diversification, historical averages, or portfolio construction seemed to calm her nerves.

At some point, I reminded her of one of her deeply desired investing goals: to one day purchase and live in a cottage on the coast. She thought this to be a long shot at best. So, we pulled out a calculator and looked at what her investments could potentially accomplish over time. Suddenly, her account stopped being a collection of stocks and bonds and became her "Dream cottage account."

That shift changed everything.

The inevitable ups and downs of investing were no longer random stressors to be endured. They became part of the journey toward something meaningful.

Our team places significant emphasis on helping clients identify their "why." The more specific the better, as a clear destination can make periods of volatility much easier to navigate.

Just like a long road trip, if your entire focus is avoiding every possible traffic jam, you are more likely to become frustrated, distracted, or even lose your way. The travelers who successfully reach their destination are typically the ones who know exactly where they are headed.

2. Pack well for the journey

Even the best road trip requires preparation.

The same is true with investing. It's never too late to adopt sound portfolio principles like diversification, goals-based asset allocation, and a disciplined investment process.

A well-diversified portfolio is more likely to contain investments that behave differently from one another. While no portfolio is immune to volatility, diversification can provide balance when parts of the market struggle. By contrast, portfolios built around chasing the latest winner or searching for the next big opportunity may experience significantly more dramatic swings.

Going back to the road trip, getting stuck in traffic without snacks, water, or a charging cable can certainly make for a frustrating afternoon. But it is far better to pull off the highway, restock, and continue on your way than to abandon the trip altogether.

Preparation does not eliminate challenges. It simply makes them easier to manage.

3. Control the controllables

When markets become turbulent, it can be tempting to make dramatic changes to an investment portfolio.

Whether that is appropriate depends on each investor's unique circumstances, goals, and needs. However, we often find that a simple framework can help bring clarity to periods of uncertainty.

Before making major changes, consider these three questions:

Question 1:

Do I need to, and can I, make temporary changes to my cash flow first and foremost?

Question 2:

Are there subtle adjustments that can be made to better position my portfolio for the current environment?

Question 3:

Should we make significant reductions to risk within the investment accounts?

In our experience, meaningful progress can often be made by thoughtfully addressing questions one and two before jumping directly to question three.

This approach encourages investors to focus on what they can control rather than reacting emotionally to short-term market movements. It can also help prevent knee-jerk decisions that may feel comforting in the moment but could negatively impact long-term outcomes.

Take Away

Traffic is not a reason to abandon a road trip, and market volatility is not a reason to abandon a well-constructed financial plan. By keeping your destination in focus, preparing your portfolio thoughtfully, and concentrating on the factors you can control, periods of market turbulence can become far less intimidating.

The reality is that volatility will always be part of the investing experience. But, when these three pieces are in place, volatility can transform from a stressor that demands a reaction into a part of the journey met with confidence, perspective, and poise.

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