

Market Turbulence: What History Tells Us

A photograph of a lighthouse situated on a rocky island. The lighthouse is a tall, cylindrical structure with a lantern room at the top. The island is rugged and surrounded by water. The sky is a deep, moody blue with some clouds, suggesting a storm or late evening.

When global crises affect financial markets, it can be tempting to rethink your savings strategy. But history indicates that pulling money out of the markets during such times could mean missing out on any rebounds that follow.

A recent Vanguard analysis found that, on average, equity (stock) markets delivered an 8% total return six months after many major geopolitical events occurred and 12.9% after one year.

So how can you manage anxiety and stay on track with your long-term strategy when markets hit a rough patch? And what if volatility hits when you're close to retirement?

Mind Over Market

Investment volatility can feel uncomfortable, but downturns are a normal part of market cycles. If retirement isn't right around the corner, simply changing your mindset can help reduce the urge to react in the moment. Remember...

- "Losses on paper" are just that. You don't experience a loss until you actually sell.
- Continuing to contribute to your retirement plan during market downturns may even work to your advantage. By investing regularly through contributions, you're doing something called "dollar-cost averaging." Over time, you're buying more shares when prices are lower and fewer when prices are higher.

Healthy Habits

Healthy financial habits can help give you more confidence during turmoil.

- Having an ample emergency fund can help you feel more in control of your finances.
- While it may be tempting to check your 401(k) balance more often during turbulent periods, doing so too frequently may lead to impulsive, fear-based decision making.

Right-sizing Risk into Retirement

Investors nearing retirement can feel market swings more acutely. But thoughtful strategies could help you adjust your exposure to volatility and manage risk as you approach retirement. Check out options like target date funds which automatically shift your investment mix toward historically less volatile options as you near your planned retirement date.

Weigh the Potential Cost of Sitting on the Sidelines

Thinking about reducing or stopping your plan contributions during a downturn? Consider...

- You could miss out on the benefits of any market rebound.
- If your employer offers a savings match, you may be leaving free money on the table.

Ultimately, you want to be sure you're comfortable with your long-term strategy, as it will likely span many market ups and downs.

Source:

<https://www.nl.vanguard/content/dam/intl/europe/documents/en/geopolitical-sell-offs-eur-en-end.pdf>

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