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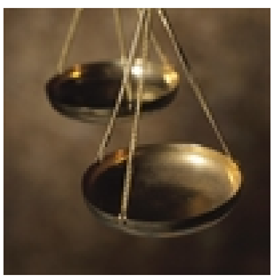
Market Volatility and Your Emotions



When dealing with a volatile market, sometimes the most difficult challenge is to manage your emotions. If you decide you need to re-examine your game plan, it should be done with as much care as you put into developing that plan in the first place. Your financial professional may be able to help you decide if any of the following may be appropriate for you.

Knowing what you own and why you own it

When the market goes off the tracks, knowing why you originally made a specific investment can help you evaluate whether those reasons still hold, regardless of what the overall market is doing. Understanding how a specific holding fits into your overall portfolio can also help you consider whether a lower price might actually represent a buying opportunity. If you're not really sure what role a security plays in your portfolio, it's never too late to find out. That knowledge can be important, especially if you're considering replacing your current holding with another investment.

Have a game plan

Setting predetermined guidelines that recognize the potential for turbulent times can help prevent emotion from dictating your decisions. For example, you might take a core-and-satellite approach, combining the use of buy-and-hold principles for the bulk of your portfolio with tactical investing based on a shorter-term market outlook. If you're an active investor, a trading discipline can help you stick to a long-term strategy. For example, you might determine in advance that you will take profits when a security or index rises by a certain percentage, and buy when it has fallen by a set percentage. You also can use diversification to try to offset the risks of certain holdings with those of others. Diversification may not guarantee a profit or protect against the possibility of loss, but it can help you understand and balance your risk in the future.

Remembering that everything is relative

Asset allocation generally is responsible for most of the variance in portfolio returns. If you've got a well-diversified portfolio, it could be useful to compare its performance to relevant benchmarks. If your investments are at least matching those benchmarks, that realization might help you feel better about the your long-term strategy. Just because a particular index may have dropped doesn't necessarily mean your entire portfolio is down by the same amount. Even when everything seems to be struggling, some asset classes may be struggling less than others.

Telling yourself that this too shall pass

The stock market is historically cyclical. Though past performance is no guarantee of future results, there have been a half-dozen previous bear markets--declines of 20% or more--since the early 1970s,* and though it may have taken a while, the market eventually bounced back every time. Even if you wish you had sold at what turned out to be a market peak, or regret having sat out a buying opportunity, you may well get another chance at some point. Neither the ups nor the downs are likely to last forever, even though at the time they may feel as though they will. Even in the midst of the Great Depression, there were short-term rallies and trading opportunities. And in some cases, people built fortunes over time by investing carefully just when things seemed bleakest. Even if you feel you need to make changes in your portfolio, they don't necessarily need to happen all at once. Don't hesitate to get expert help.

*Source: *Stock Trader's Almanac 2011*

Remembering your road map

If you feel you need to make changes in your portfolio, there are ways to do so short of a total makeover. You could test the waters by redirecting a small percentage of one asset class into another. You could put any new money into a type of investment you feel is well-positioned for the future. You could set a stop-loss order to prevent your investment in a security from falling below a certain level, or have an informal threshold below which you will not allow a given investment to fall before selling. Though all investing involves risk, including the possible loss of principal, and there can be no guarantee that any strategy will be successful, there are many possible ways to pursue your investment goals. Getting expert help can assist you in determining which if any might be useful to you.