Don't Panic: 7 Expert Tips for Managing Stock Market Volatility

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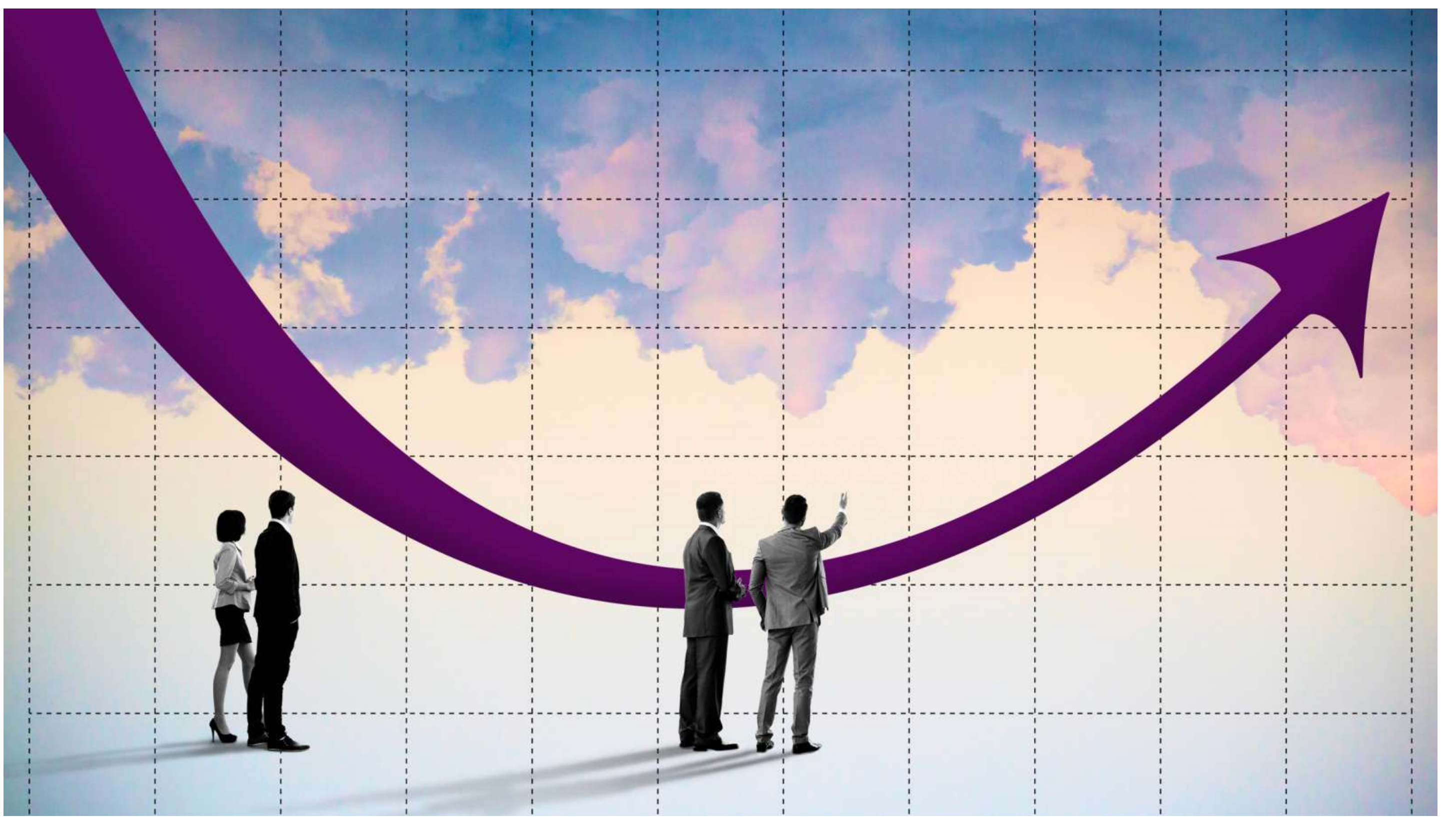

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Investors have endured big market swings this year. While that volatility can be stress-inducing, it's no reason to panic.

The S&P 500 started the year on a high, **fell into a bear market** in June, **rallied over the summer** and is now down about 23% for the year.

Investors are in the throes of what is historically the **most volatile month of the year** for **stocks**, and experts say the coming weeks will likely remain hectic against the backdrop of **rising interest rates** and midterm elections.

But you can be prepared for more rollercoaster-like market moves. Here are seven tips from financial experts on what you should (and shouldn't) do amid stock market volatility.

1. Don’t panic

When markets are volatile, investors sometimes let their emotions get the best of them. But acting rashly can hurt your portfolio.

If investors are fearful and panicked, they're more "likely to make decisions that could be damaging to their long-term financial position as an investor," says Emmanuel Eliason, president and CEO of Eliason Wealth Management in the Denver area.

It’s common for investors to react to a downswing by pulling money out of the market to try to cut their losses, he says. But that’s often a mistake because the market's best days can **happen soon after** the market's worst days.

Investors who sell stocks to try to cut losses are often tempted to buy back in when they see that prices have gone back up, Eliason says.

"Then they’re buying at a high price, which is totally against basic philosophy of buying when prices are low and then selling high," he says.

2. Stick to your strategy

If you already have a strong investing strategy in place, the best reaction to market volatility might be doing nothing, according to Brian Schmehil, managing director of wealth management at the Mather Group in Chicago.

Bear markets like we're experiencing now are inevitable, but stocks tend to bounce back in the long run. It takes an average of about 19 months for stocks to recover their losses from a bear market or near bear market, according to an **LPL Research analysis** of S&P 500 returns since the 1950s.

But if you didn't have a strategy to begin with and you're now seeing massive swings you're uncomfortable with, it's a good time to develop a long-term strategy that aligns your portfolio with your risk tolerance, Schmehil says.

3. Diversify your portfolio

Financial advisors recommend always having **diversified portfolios**, but diversification is especially important when the market is volatile.

Specific industries can get hit harder than the overall market may get hit, and specific companies within that industry may get hit harder than its counterparts, says René Bruer, co-CEO at Smith Bruer Advisors in Colorado Springs, Colorado.

Diversifying your stock portfolio means spreading your investments out across various asset classes — like stocks and **bonds** — as well as different types of investments within those asset classes. For example, your stock portfolio should consist of shares of companies that are both large and small, and those that are based in the U.S. and based internationally.

4. Rebalance if necessary

Now may be a good time to ensure your portfolio is still in line with your investing plan.

Rebalancing is the process of buying and selling assets in your portfolio to maintain your goal ratios. Say, for example, you want to have a portfolio that's 75% stocks and 25% bonds. If the stock market plummets during a quarter in which bond prices rise, you may need to rebalance to get back to your target weights.

"When the market experiences major changes such as the 20% stock market decline this year, investors' portfolios will evolve away from their planned allocations," says Matthew Gelfand, executive director of Tricolor Capital Advisors in the Washington, D.C. area.

He recommends rebalancing either every quarter or semiannually.

5. Buy stocks at a discount

Slumping stocks can be alarming for investors. But if you have cash on the sidelines, market declines present the opportunity to buy at a discount. It might be a good time to put your money to work.

Trying to **buy the dip** may be tempting, but attempting to guess when stocks are at a low point can backfire on investors, says Catherine Valega, owner and financial planner at Green Bee Advisory in Boston.

Instead, financial advisors often recommend **dollar-cost averaging,** which involves investing a fixed amount in consistent intervals, like $100 every month. (If you have a **401(k)** you automatically contribute to from each paycheck, you're already dollar-cost averaging.)

Valega says investors who have long-term positions shouldn't worry about the stock market's recent declines. If you have the means, she recommends taking advantage of the opportunity to buy at cheaper prices.

"Don't stress if the markets are going down. That's fine. You continue to buy those shares lower."

6. Don’t try to time the market

When stocks are down, like they are this year, some investors become too fixated on trying to buy at the lowest point, says Liz Young, SoFi's head of investment strategy.

"There's this huge temptation by everyone, I think, to call the bottom," Young says. But no one knows exactly when prices will hit that lowest low.

If you end up buying after the bottom, don't stress, Young says.

"You might miss a little bit of the recovery on the other side," she adds. But if you've got a long-term time horizon, you're still going to benefit.

7. Have cash on hand

By keeping an appropriate amount of your savings out of the stock market, you'll be able to withstand market dips without having to sell to remain afloat, says Todd Youngdahl, managing partner and financial advisor at Washington Wealth Advisors in Falls Church, Virginia.

"It gives clients security if they know that they have accessible, liquid, safe cash reserves that would help them in an emergency," he adds. "It allows them to feel that they can handle market volatility with some of their longer-term financial assets and investments, whether it be for college education or retirement."

It's ideal to have enough money in a **savings account** to cover **three to six months of your expenses**, though the exact amount depends on your personal situation, Youngdahl says. This type of an **emergency fund** will help you in the event of a job loss or an unexpected expense like a large medical bill, reducing your risk of needing to sell stocks at a low point.

Since the Federal Reserve has raised interest rates, savings accounts are now **offering better annual percentage yields (APYs)**, with some in the 2-3% range. Youngdahl recommends shopping around to find an FDIC-insured savings account with a competitive rate.

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