FIDELITY VIEWPOINTS®

Six strategies for volatile markets

When markets get choppy, it pays to have a plan for your investments, and to stick to it.

by Fidelity Viewpoints – 06/01/2017

No investor likes to hear that the market has experienced a big drop. But volatility is part and parcel of investing.

"Dramatic moves in the market may cause you to question your strategy and worry about your money," says Ann Dowd, CFP®, vice president at Fidelity Investments. "A natural reaction to that fear might be to reduce or eliminate any exposure to stocks, thinking it will stem further losses and calm your fears, but that may not make sense in the long run."

So instead of being worried by volatility, be prepared. A well-defined investment plan tailored to your goals and financial situation can help you be ready for the normal ups and downs of the market, and take advantage of opportunities as they arise.

“Market volatility should be a reminder for you to review your investments regularly and make sure you consider an investment strategy with exposure to different areas of the markets—U.S. small and large caps, international stocks, investment-grade bonds—to help match the overall risk in your portfolio to your personality and goals,” says Dowd.

Here’s how.

1. Keep perspective–downturns are normal and normally short lived.

Market downturns may be upsetting, but history shows that the U.S. stock market has been able to recover from declines and can still provide investors with positive long-term returns. In fact, over the past 35 years, the market has experienced an average drop of 14% from high to low during each year but still had a positive annual return more than 80% of the time.

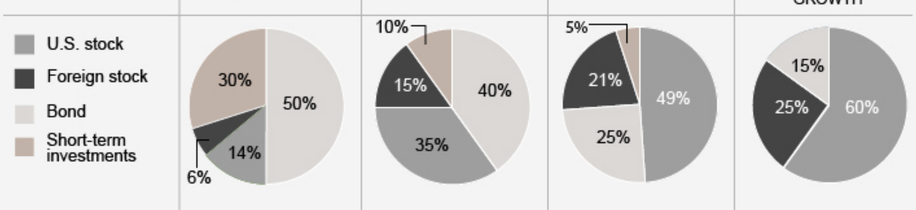
2. Be comfortable with your investments.

If you are nervous when the market goes down, you may not be in the right investments. Your time horizon, goals, and tolerance for risk are key factors in helping to ensure that you have an investment strategy that works for you.

Even if your time horizon is long enough to warrant an aggressive portfolio, you have to be comfortable with the short-term ups and downs you'll encounter. If watching your balances fluctuate is too nerve-racking for you, think about reevaluating your investment mix to find one that feels right.

But be wary of being too conservative, especially if you have a long time horizon, because strategies that are more conservative may not provide the growth potential you need to achieve your goals. Set realistic expectations, too. That way, it may be easier to stick with your long-term investment strategy.

Choose the amount of stocks you are comfortable with



	Conservative	Balanced	Growth	Aggressive Growth
ANNUAL RETURN %				
Average	5.97	7.95	8.94	9.62
Best 12 months	31.06	76.57	109.55	136.07
Worst 12 months	–17.67	–40.64	–52.92	–60.78
Best 5 years	17.24	23.14	27.27	31.91
Worst 5 years	–0.37	–6.18	–10.43	–13.78

Data source: Morningstar Inc., 2016 (1926–2016). **Past performance is no guarantee of future results.** Returns include the reinvestment of dividends and other earnings. This chart is for illustrative purposes only and does not represent actual or implied performance of any investment option. See footnote two below for detailed information.

3. Do not try to time the market.

Attempting to move in and out of the market can be costly. Research studies from independent research firm Morningstar show that the decisions investors make about when to buy and sell funds cause those funds to perform worse than they would have had the investors simply bought and held the same funds.[1]

If you could avoid the bad days and invest during the good ones, it would be great—the problem is, it is impossible to consistently predict when those good and bad days will happen. And if you miss even a few of the best days, it can have a lingering effect on your portfolio.

Past performance is not a guarantee of future results. The hypothetical example assumes an investment that tracks the returns of the S&P 500® Index and includes dividend reinvestment but does not reflect the impact of taxes, which would lower these figures. There is volatility in the market and a sale at any point in time could result in a gain or loss. Your own investment experience will differ, including the possibility of losing money. You cannot invest directly in an index. The S&P 500®, a market capitalization–weighted index of common stocks, is a registered service mark of the McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation. Source: FMRCo, Asset Allocation Research Team as of 5/20/2016.

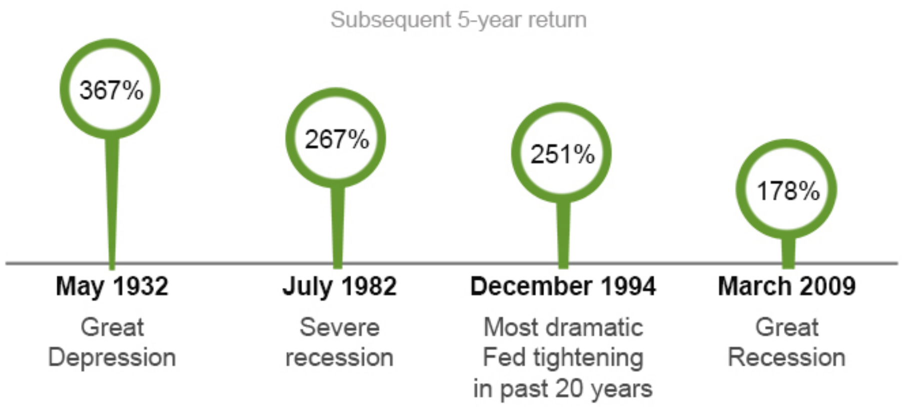
4. Investing regularly despite volatility.

If you invest regularly over months, years, and decades, short-term downturns will not have much of an impact on your ultimate performance. Instead of trying to judge when to buy and sell based on market conditions, if you take a disciplined approach of making investments weekly, monthly, or quarterly, you will avoid the perils of market timing.

If you keep investing through downturns, it won't guarantee gains or that you will never experience a loss, but when prices do fall you may actually benefit in the long run. When the market drops, the prices of investments fall and your regular contributions allow you to buy a larger number of shares.

In fact, what seemed like some of the worst times to get into the market turned out to be the best times. The best five-year return in the U.S. stock market began in May 1932—in the midst of the Great Depression. The next best five-year period began in July 1982, amid an economy in the midst of one of the worst recessions in the postwar period, featuring double-digit levels of unemployment and interest rates.

It has paid to stay invested in U.S. stocks during troubled times.



U.S. stock market returns represented by total return of S&P 500® Index. Past performance is no guarantee of future results. It is not possible to invest in an index. First three dates determined by best five-year market return subsequent to the month shown. Sources: Ibbotson, Factset, FMRCo, Asset Allocation Research Team as of March 31, 2015.

5. Take advantage of opportunities.

There may be a few actions that you can take while the markets are down, to help put you in better position for the long term. For instance, if you have investments you are looking to sell, a downturn may provide the opportunity for tax-loss harvesting—when you sell an investment and realize a loss. That could help your tax planning.

Additionally, if you execute a Roth conversion—moving money from a tradition IRA or 401(k) to a Roth account—a downturn could help. Compared with a conversion when asset prices were higher, a conversion in a downturn may result in a lower tax bill for the same number of shares.

Finally, if the movement of the markets has changed your mix of large-cap, small-cap, foreign, and domestic stocks, or your mix of stocks, bonds, and cash, you may want to rebalance to get back to your plan. That could provide a disciplined approach that helps you take advantage of lower prices.

These strategies are complex, and you may want to consult a professional before making any tax or investment decisions.

6. Consider a hands-off approach.

To help ease the pressure of managing investments in a volatile market, you may want to consider an all-in-one fund or professionally managed account for your longer-term goals such as retirement. These different approaches offer a range of different services and different costs but, depending on the specific option, may provide professional asset allocation, investment management, and ongoing tax management.

The bottom line

Rather than focusing on the turbulence, wondering whether you need to do something now or wondering what the market will do tomorrow, it makes more sense to focus on developing and maintaining a sound investing plan. A good plan will help you ride out the peaks and valleys of the market and may help you achieve your financial goals.

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Fidelity does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Fidelity cannot guarantee that the information herein is accurate, complete, or timely. Fidelity makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax professional regarding your specific situation.

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Past performance is not a guarantee of future results.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible. Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

1. Morningstar, "Mind the Gap 2015."

2. Data Source: Ibbotson Associates. Stocks are represented by the Standard & Poor's 500 Index (S&P 500® Index). The S&P 500® Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. Bonds are represented by the Barclays U.S. Intermediate Government Bond Index, which is an unmanaged index that includes the reinvestment of interest income. Short-term instruments are represented by U.S. Treasury bills, which are backed by the full faith and credit of the U.S. government. Indexes are unmanaged, and you cannot invest directly in an index. Foreign stocks are represented by the Morgan Stanley Capital International Europe, Australasia, Far East Index for the period from 1970 to the last calendar year. Foreign stocks prior to 1970 are represented by the S&P 500® Index. The purpose of the target asset mixes is to show how target asset mixes may be created with different risk and return characteristics to help meet an investor's goals. You should choose your own investments based on your particular objectives and situation. Be sure to review your decisions periodically to make sure they are still consistent with your goals.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

581885.23.1