

Weathering market volatility

During times of volatility, it's wise to remain calm.

Times of market volatility can often trigger emotional responses in investors, responses that can impact judgement and potentially affect long-term plans. Too often, investor emotion follows the ups and downs of the market. While market volatility is largely out of our hands, understanding how it occurs and the role of your long-term financial plan can help you weather the storm.

Though often stressful, periods of volatility are an opportunity to connect with your advisor, enabling them to act as a sounding board for the concerns you may have. By talking about current events in light of your overall financial plan, your advisor can provide reassuring perspective to help you stay the course or readjust if your plan no longer aligns with your goals. Above all, maintaining perspective and investing intelligently are critical.

KEY TAKEAWAYS

- ▶ Volatility is the product of uncertainty in the financial markets.
- ▶ Effective asset allocation and diversification can help protect your portfolio.
- ▶ Maintain perspective. Despite periodic pullbacks, returns over multi-year periods are generally positive.
- ▶ Your financial plan is in place for a reason.
- ▶ Periodic check-ins with your advisor and rebalancing as necessary can help keep your portfolio on track.

DEFINING VOLATILITY

Understanding what volatility means in the financial markets is key to weathering periods of ups and downs. At a basic level, when stock prices fluctuate dramatically, the markets are in a period of high volatility. So why do these periods of instability occur? While the specific causes are countless, the root of nearly all volatility is uncertainty. Certainty induces confidence in financial markets and produces a greater degree of predictability when pricing assets. On the other hand, when previously unforeseen

risks become visible to investors, they may react with anxiety and confusion. Often, in an attempt to avert losses or gain profit, investors frantically buy or sell, causing asset prices to swing wildly.

To explore uncertainty, you should understand that most uncertainty comes from four main categories of risk: market risk, liquidity risk, credit risk and operational risk. In most cases, market risk is responsible for volatility in asset prices.

To put the concepts of risk and uncertainty into a little more context, suppose a company earns most of its revenue from international sales. The company receives payment in foreign currencies, which are exchanged to US dollars. Say the value of the US dollar fluctuates relative to foreign currencies and the trend is expected to continue in the future. It is therefore more difficult to value the future revenues of the company with the same degree of certainty due to the presence of additional currency risk. As a result, investors sell shares of the company, causing its stock price to decline. The result? Heightened volatility.

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Four categories of risk

Liquidity risk The inability to sell a particular asset due to a lack of buyers.

Credit risk Specific to debt investments, the risk of debtors defaulting on their obligations to creditors.



Market risk Generally the most common cause of uncertainty, this includes external price shocks, currency or interest rate movements, natural disasters and geopolitical tensions.

Operational risk Risks inherent in the management of a business or other entity, including fraud and other illegal activities.

MEASURING VOLATILITY

Volatility is a valuable gauge for investor sentiment and the level of uncertainty present in the markets.

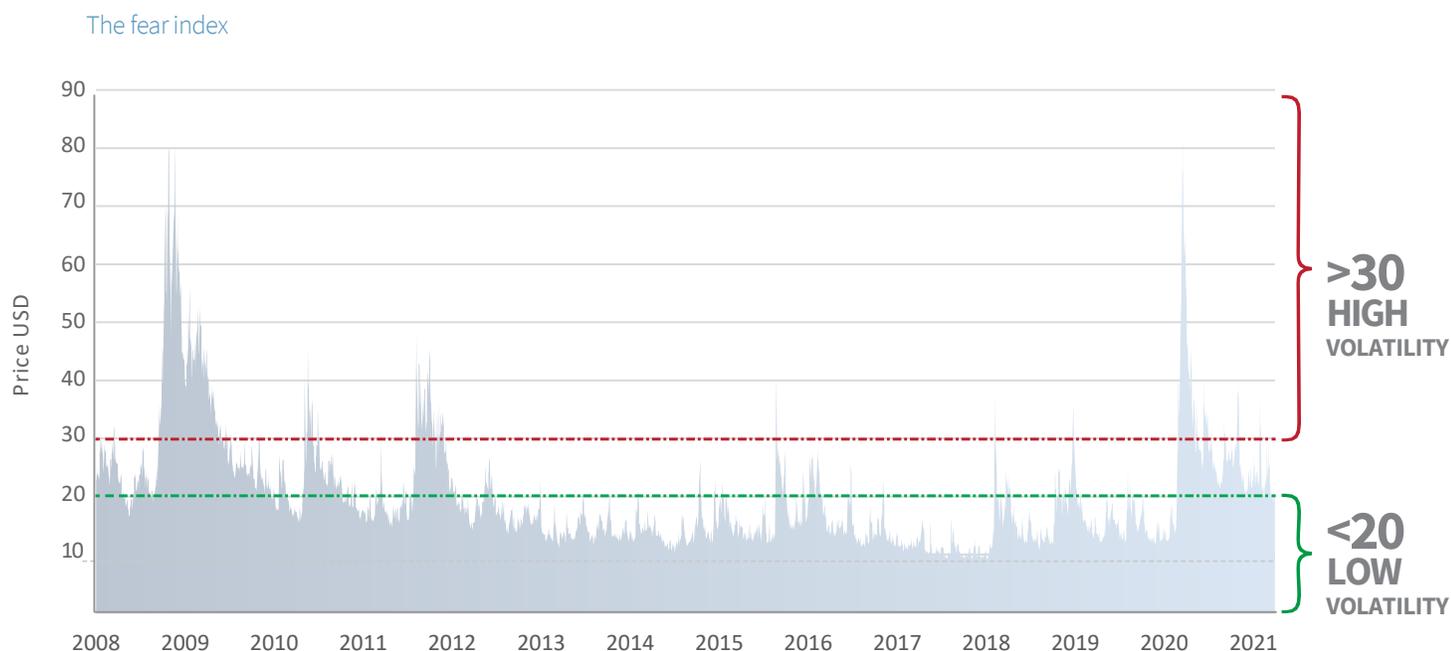
Historical volatility is measured by observing changes in asset prices over time. Standard deviation, a statistical measure of variability, indicates the degree to which an asset has ‘deviated’ from its average price. Investment professionals regard standard deviation as a proxy for risk and use it to calculate a wide array of financial measures. Often, they’ll also compare a stock’s

current value to its average price over a preceding time period, known as a simple moving average, to help identify trends and signals.

Implied volatility, conversely, is a helpful gauge in anticipating future volatility. Implied volatility is derived from prices on option contracts. These contracts allow investors to buy or sell assets at a given price at a predetermined point in the future. Therefore, their prices are largely determined by the expectation of future price fluctuations on the underlying asset.

It is important to remember that the stock market is cyclical. Patient, committed investors – those who view their investment strategy with a long-term perspective – often experience stock market resilience firsthand.

Investment professionals often look to the **Chicago Board Options Exchange Volatility Index (VIX)**, which aggregates the pricing on an array of options contracts on the S&P 500. The VIX – also known as the “fear index” – is one of the leading gauges of market risk and a frequent estimate for volatility levels over the next 30 days.



Source: Chicago Board of Exchange Options (VIX Close Data), January 2, 2008 to March 31, 2021.

PLAYING THE LONG GAME

While market volatility is inevitable, there are a variety of strategies that may help mitigate its negative impact on your portfolio.

Asset allocation and diversification

Your first defense against volatility is working with your advisor to craft and maintain a balanced portfolio. Effective asset allocation and diversification can broaden your reach in the market and provide a wider safety net during periods of turbulence. Volatility often affects individual sectors and asset classes differently, so diversifying across various classes, sectors, and securities reduces the chance of one narrow decline devastating your overall portfolio. Additionally, paying attention to how your assets are correlated – how much they tend to move in the same direction – may help insulate your returns from the negative effects of volatility.

A key aspect of maintaining your portfolio through any market is having a clear understanding of your tolerance for market movements. Working with your advisor to determine your risk tolerance – over the long term, not how you feel when the market is soaring or skidding – can provide perspective when creating an asset allocation model that can see you through the market's ebbs and flows.

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Investment returns, ranked best to worst

Asset classes cycle in and out of favor. Here's a look at how each major asset class performed compared to a diversified portfolio over the past 10 years.

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real Estate 40.4%	Fixed Income 7.8%	Non-US Equities 17.0%	US Equities 32.4%	Real Estate 14.3%	US Equities 1.4%	Real Estate 15.3%	Non-US Equities 24.8%	Cash & Cash Alternatives 1.8%	US Equities 31.5%	US Equities 18.4%
Commodities 16.7%	Blended Portfolio 2.3%	US Equities 16.0%	Non-US Equities 21.6%	US Equities 13.7%	Fixed Income 0.5%	US Equities 12.0%	US Equities 21.8%	Fixed Income 0.0%	Non-US Equities 23.2%	Blended Portfolio 12.5%
US Equities 15.1%	US Equities 2.1%	Blended Portfolio 11.4%	Blended Portfolio 17.0%	Blended Portfolio 8.0%	Blended Portfolio 0.5%	Commodities 11.4%	Blended Portfolio 15.0%	Blended Portfolio -4.0%	Blended Portfolio 21.1%	Non-US Equities 8.1%
Blended Portfolio 10.8%	Cash & Cash Alternatives 0.1%	Fixed Income 4.2%	Cash & Cash Alternatives 0.0%	Fixed Income 6.0%	Cash & Cash Alternatives 0.0%	Blended Portfolio 6.9%	Fixed Income 3.5%	US Equities -4.4%	Real Estate 19.5%	Fixed Income 7.5%
Non-US Equities 9.4%	Real Estate -2.2%	Real Estate 0.6%	Fixed Income -2.0%	Cash & Cash Alternatives 0.0%	Non-US Equities -2.6%	Non-US Equities 3.3%	Cash & Cash Alternatives 0.8%	Real Estate -7.6%	Fixed Income 8.7%	Cash & Cash Alternatives 0.5%
Fixed Income 6.5%	Non-US Equities -11.8%	Cash & Cash Alternatives 0.1%	Commodities -9.6%	Non-US Equities -3.9%	Real Estate -24.2%	Fixed Income 2.6%	Commodities 0.7%	Commodities -13.0%	Commodities 5.4%	Commodities -3.5%
Cash & Cash Alternatives 0.1%	Commodities -13.4%	Commodities -1.1%	Real Estate -25.8%	Commodities -17.0%	Commodities -24.7%	Cash & Cash Alternatives 0.3%	Real Estate -0.2%	Non-US Equities -13.6%	Cash & Cash Alternatives 2.2%	Real Estate -13.1%

Blended Portfolio consists of 45% U.S. Equity/
15% Non-U.S. Equity / 40% U.S. Fixed Income.

The process of rebalancing may result in tax consequences. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Blended Portfolio consists of 45% U.S. Equity / 15% Non-U.S. Equity / 40% U.S. Fixed Income. All investing involves risk and you may incur a profit or a loss. Past performance is not a guarantee of future results. This material is for informational purposes only and should not be used or construed as a recommendation regarding any security. Indices are unmanaged and cannot accommodate direct investments. An individual who purchases an investment product which attempts to mimic the performance of an index will incur expenses such as management fees and transaction costs which reduce returns. Returns are cumulative total return for stated period, including reinvestment of dividends. Asset allocation and diversification do not guarantee a profit nor protect against loss. Source: FactSet and Raymond James Research

VOLATILITY MAY PRESENT OPPORTUNITIES

The good news is that market volatility isn't always bad news. Though it may be tempting to concentrate on losses caused by price fluctuations, it's important to remember that volatility – and changing price trends – may offer opportunity for gains.

One way to potentially use volatility to your advantage is through dollar-cost averaging, the practice of investing a set amount every month or quarter. Although engaging the strategy takes discipline – you'll be putting money into the market when the headlines (and likely your

friends and colleagues) are full of doom and gloom – price declines often afford investors the opportunity to purchase assets at better valuations.

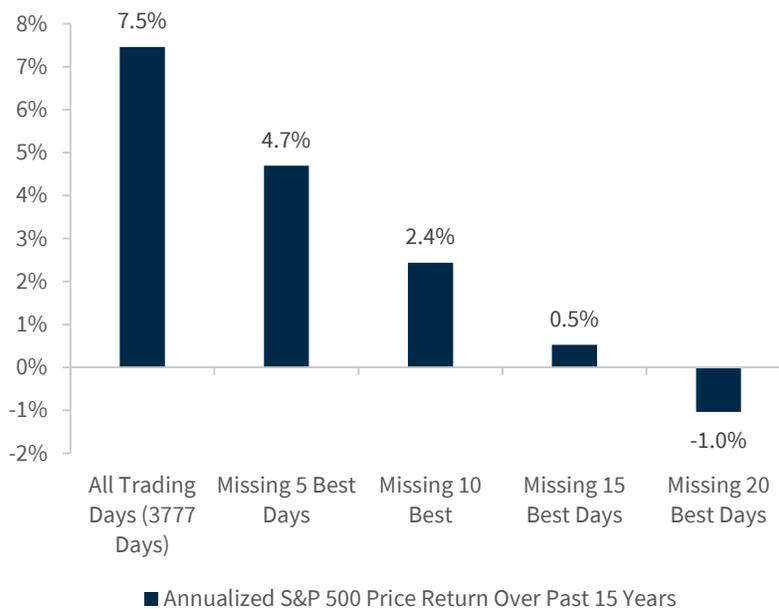
It's also good to keep in mind that, in the right situation, selling assets at a loss, a practice called tax loss harvesting, may prove beneficial. This strategy can help offset the taxes on your investment gains. At the same time, you free up capital to reinvest at lower prices.

Although it may be difficult, try to stay focused on your financial goals when markets are volatile.

If you're contributing money to a company 401(k) plan, perhaps biweekly or monthly, you're already practicing dollar-cost averaging.

Staying Invested Through Volatility

Timing the market is a near-impossible task and by staying invested, even through periods of volatility, an investor can increase their chances of achieving higher returns.



Source: FactSet, as of 12/31/2020



INVESTING WITH DISCIPLINE

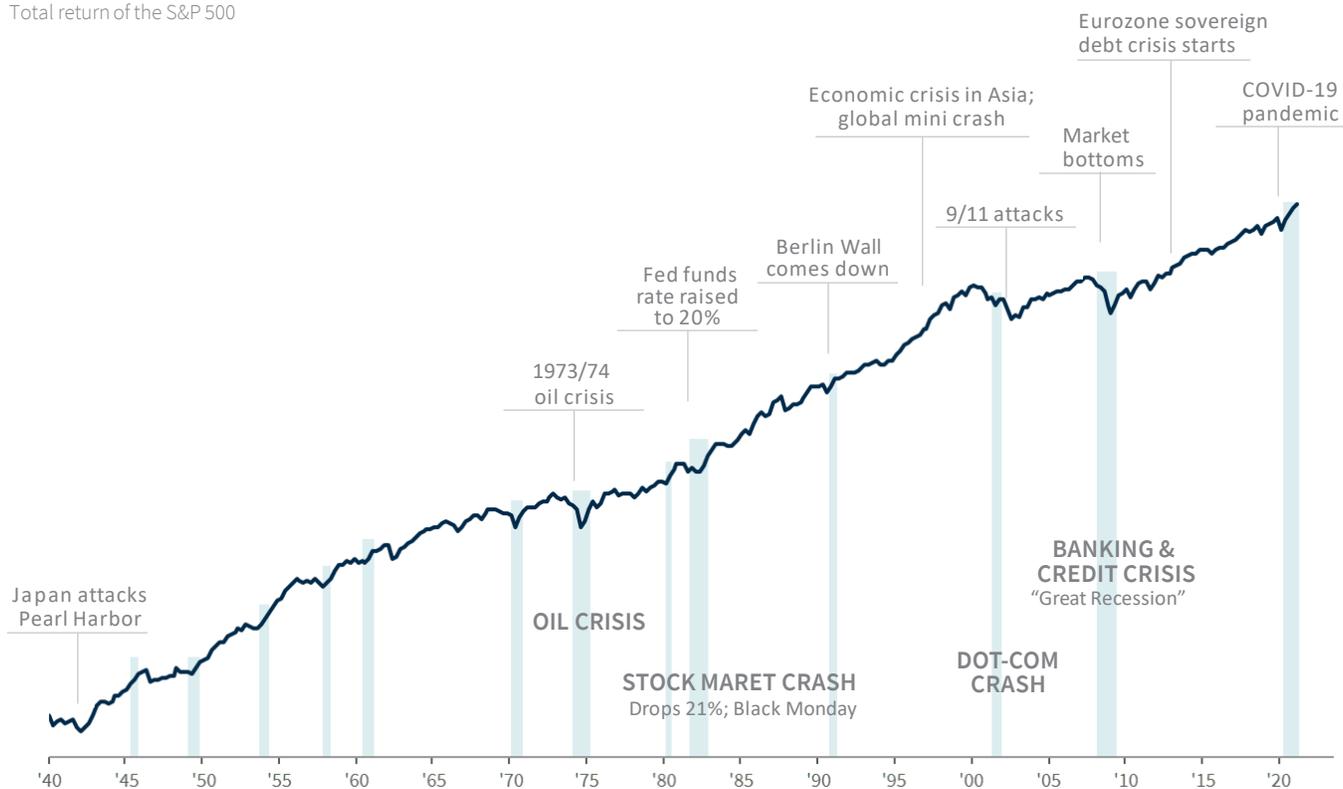
Volatility doesn't occur in a vacuum. It's influenced by human behavior and actions – or rather *reactions* – to events in the market, the global economy and politics, among other factors. And while current events can initiate fluctuations, it's the response of investors that fuels them.

It can be difficult to ride out volatility without reacting irrationally, but it's important to maintain discipline and focus on your long-term goals and best interest.

While everyone wants to “buy low and sell high,” investors are often driven by emotion to do exactly the opposite. Excitement can cause investors to rush in when the market's rising and everyone else is buying, then panic and

Stocks overcome bumps in the road

Total return of the S&P 500



Source: FactSet, 03/29/1940-03/31/2021

MAINTAINING PERSPECTIVE

No matter the intensity of the market turbulence that may arise, don't underestimate the value and importance of time. The markets have proven remarkably resilient over the long term. In fact, while the financial markets can be quite volatile year-to-year, returns are generally positive over multi-year periods. By simply staying invested, you give your assets the chance to rebound in the wake of downturns.

Don't forget that you have a financial plan for a reason, and that it was carefully crafted by you and your advisor specifically with your objectives and risk tolerance in mind. Though it may be difficult, staying focused on your endgame is the best way to help achieve your long-term objectives. As always, your financial advisor is there as a trusted guide and resource to address any concerns and help you make progress toward your financial goals.

BROAD ASSET CLASS RETURNS INDEX DESCRIPTIONS

U.S. EQUITY | Russell 3000 Total Return Index: This index represents 3000 large U.S. companies, ranked by market capitalization. It represents approximately 98% of the U.S. equity market. This index includes the effects of reinvested dividends.

NON-U.S. EQUITY | MSCI ACWI Ex USA Net Return Index: The index is a market-capitalizationweighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The index includes both developed and emerging markets.

GLOBAL REAL ESTATE | FTSE EPRA/NAREIT Global Net Return Index: This index is designed to track the performance of listed real estate companies and REITs in both developed and emerging markets. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products. Prior to 2009, this asset class was represented by the NASDAQ Global Real Estate Index.

CASH & CASH ALTERNATIVES | The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

FIXED INCOME | Bloomberg Barclays Capital Aggregate Bond Total Return Index: This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and assetbacked securities.

COMMODITIES | Bloomberg Commodity Total Return Index: The index tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components). The weightings for each commodity included in the Bloomberg Commodity Index are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity. Annual rebalancing and reweighting ensure that diversity is maintained over time.

Index returns do not reflect the deduction of fees, trading costs or other expenses. The index is referred to for informational purposes only. Investors may not make direct investments into any index. Past performance may not be indicative of future results.

International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. The value of real estate investments may be adversely affected by several factors, including supply and demand, rising interest rates, property taxes, and changes in the national, state and local economic climate. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising.

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