

## **Stock Market Volatility**

To some, investing in a volatile stock market seems as pointless as an odometer in an elevator \_\_\_ lots of ups and downs with very little forward progress. However, with a few simple principles and a good financial adviser, most investors learn to withstand temporary volatility for significant long\_term gains.

Investors worry about losing on an investment, especially after hearing tales of the crash of 1929 or having first\_hand experience of the tumble of 2001. "Sure", you say, paraphrasing John Maynard Keynes, "Stocks are good long\_term investments, but in the long\_term I'll be dead."

Well, that's true. It's also true that 1929 and 2001 were severe examples of years with volatile stock prices. And, like earthquakes, there will probably be others sometime in the future. No market goes up and up forever. But you don't have to hold stocks, or stock mutual funds, for a lifetime to earn good returns.

Three attributes are required for investors to succeed in mutual funds that hold stocks (called equity funds):

- Patience
- Discipline
- Heeding Good Advice

Patience means holding your ground during price dips. Investors who stay with their investments even in the most difficult markets find they recover most of their losses within a year or two. During less severe corrections, the market may recover even more quickly.

Discipline means buying low, and not engaging in the frenzy of buying high which usually indicates a market top. One excellent way to avoid panic buying or selling is by investing a fixed amount every week or month, called dollar cost averaging. Disciplined investors may also set price targets, buying when the price goes down a certain amount and selling when it goes up.

The symbols and legends in the newspaper financial section may seem as clear as a Sanskrit spelling bee. Heeding good advice will help translate the vocabulary of investing. Unless you are prepared to drop your other commitments and spend the hours required each week to research and manage your investments, good planning advice comes from your financial adviser and good day\_to\_day investment management comes from professional mutual fund managers.

There is a risk in not investing too, it's called "purchasing power risk". This is the risk that your dollars will deteriorate relative to a price index. If your money is in your mattress, or a regular bank savings account, price increases may eat away at your purchasing power. You may find that your dollars are worth less than when you saved them. Purchasing power risk is the financial equivalent of moths..

So don't let the moths eat away at your savings! With patience, discipline, and good advice, you should be able to weather the temporary volatility of stocks and be on your way toward building a valuable investment portfolio.