Stick with a Plan in Uncertain Financial Markets

The market turbulence that plagued investors in the first quarter of 2020 has continued. This persistent volatility has left investors with some nagging questions. When are the economy and markets likely to get back on track? What should I do in the meantime? Are there any opportunities amid today’s challenges? BNY Mellon Investment Management is here to offer tips that may help investors stay the course.

Start a Plan

- Begin with — or remember — the basics of asset allocation.
- When you divide your money among a variety of asset classes — stocks, bonds and cash — using an asset allocation strategy, you can potentially smooth the ups and downs of financial markets.
- Diversifying your investments within the major asset classes and investment styles can help balance out a portfolio.
- Asset allocation enables you to own a wide selection of investment types to potentially benefit when one asset class does well and limit the downside when another asset class does not.

Stay Committed

- Once you create an asset allocation plan, it helps to keep a long-term perspective when inevitable financial market volatility occurs.
- It’s important to note that asset allocation and diversification do not ensure a profit or protect against loss. However, it makes sense to remember your long-term asset allocation strategy, and stick with it, no matter how great short-term economic challenges may seem.

Stay Committed

A long-term commitment to your asset allocation strategy doesn’t mean you shouldn’t take action during periods of uncertainty. The key is the right action.

Consider taking out your latest statement and asking yourself a few questions about your strategy:

“Have changes in financial markets changed my asset allocation plan?”
“Am I still diversified according to my long-term plan?”

You may discover the original percentages you allocated to different asset classes and types of investments are not in sync with your strategy due to shifts in the market. Your portfolio may be overly concentrated or under-represented in one area. If so, your financial advisor can help reallocate your assets and ensure your long-term strategy is back on track.

“Have there been significant changes in my life that impact my long-term financial goals?”
“What new financial goals do I have?”
“Has the passage of time affected my comfort level with investment risk?”

Depending on the answers, your financial advisor may recommend modifying your asset allocation to reflect changes in your family, your outlook and your life.

Stick with a Plan

This means maintaining a diversified portfolio. The discipline of asset allocation is designed to help you take short-term fluctuations more in stride.

Of course, many investors at some point are tempted to move out of stock investments, into cash positions, and stay on the sidelines until financial turbulence settles... but this may be a costly mistake.

If stock markets unexpectedly rebound, as they typically have done in the past, you may end up getting shut out of the market during what could be a good opportunity to benefit from market gains.

The length of time an investor is in the market can make a difference in the amount of contributions they will save to potentially grow their investments.

If you sell assets while the market is declining, you risk missing upward trends that have historically followed.

In times like these, it makes sense to start with a plan, stay committed, stay aware and stick with a plan.

Asset allocation and diversification do not ensure a profit or protect against loss in declining markets.

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

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