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Having perspective in a time of heightened volatility

With global stocks and bonds suffering declines in the first four months of 2022 and volatility remaining high, investors are challenged with how to respond **- if at all.**

Beyond disappointing short-term returns and a spike in volatility, investors face soaring inflation across most developed economies; the prospect of the end of a long era of 'easy-money' central bank policies; the war in Ukraine; and the effects of the Covid-19 pandemic, including economy-disrupting shutdowns in China. To cap off an already volatile period, the Federal Reserve (Fed) and Bank of England each raised their respective interest rates last week.

These economic and market woes might tempt some investors to withdraw from markets and go to cash, but that would be almost ensuring a negative return when taking into account the corrosive effects of inflation.

Another reason to stay invested and not time the market is that, historically, the best and worst trading days have come close together, making it difficult to avoid one without the other. Only a few weeks ago was a perfect example of that, with US stock prices surging on the day of the Fed's rate-hike announcement, followed by a plunge the next day.

We should also note that some of the best trading days have occurred during periods of long market downturns, as shown in the chart below. Missing those key trading days lowers long-term returns.

S&P 500 Index daily returns

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Sources: Vanguard calculations, based on data from Refinitiv using the Standard & Poor's 500 Price Index. Data between 1 January 1980 to 31 December 2021.

The bottom line is that sticking to the long-term investment strategy you have devised with us may be the best route to investment success. Historically, investors with patience and a long-term perspective would have benefitted more from staying the course than trying to time the market when things get choppy.

What you can do when volatility hits:

Tune out the market noise. There's an old adage about never checking your account when stocks are falling. It's smart advice. As the graphics above show, making a hasty decision usually results in a mistake.

Revisit your asset allocation. If market corrections are making you lose sleep, it may be time to reevaluate your risk tolerance.

Control what you can. Costs erode your returns. This is particularly painful when stock markets are correcting. Keep costs low to keep more of your returns.

Set realistic expectations. Vanguard anticipates higher market risks and lower returns over the near term and next 10 years than we did a year ago.

Stay diversified. A great way to insulate your portfolio is to be invested across a wide range of shares bonds and international markets as part of an asset allocation plan that makes sense for your risk tolerance and goals. Bonds can act as a ballast during downturns. International exposure can give you access to markets that may generate positive performance when others are falling.

Following these simple steps can help you avoid overreacting to short-term downturns and position you for long-term success.

Stocks are represented by the FTSE Global All Cap Index, which includes developed and emerging markets. Bonds are represented by the Bloomberg Global Aggregate Float-Adjusted Composite Index, which includes fixed-rate treasury, government-related, corporate, and securitized bonds from developed and emerging markets issuers with maturities of more than one year. Returns are in US dollars.

Source: Vanguard. (2022, May 11). Giving clients perspective in a time of heightened volatility. Retrieved from Vanguard: https://www.vanguard.co.uk/professional/insights-education/insights/giving-clients-perspective-in-a-time-of-heightened-volatility