Five ways to deal with the ups and downs of volatility — don’t just survive the ride.

At times, investing can feel like riding an emotional roller-coaster. Often, it starts with building anticipation as your investments climb. Excited by the gains, you add to your investments, thinking they can only go higher. Then, without warning, gravity reasserts itself, and investment losses start to add up. Finally, just as you reach your maximum feeling of panic, the markets begin to ascend once again, giving you renewed hope that the turbulence might be over and you're going to be OK.

While you might line up for a ride like that at the amusement park, it's not the sort of thrill you want when your financial future is at stake. The hard part is that, as an investor, you can't avoid this type of unpredictability, not if you're counting on your investment gains to fund everything from education to retirement. So, what's the answer? The solution is to understand how volatility can impact your portfolio and control your emotions. It'll not only help you manage the ride; with the right strategy, you may even come out ahead.

Here are five ways to stay calm and carry on (and even see the value) during volatile markets.

1. Keep your cool.
2. Find your comfort zone.
3. Mix it up.
4. Check your balance.
5. Accelerate your performance.

Let's take a deeper dive into each one.

1 Keep your cool.

Everyone has a built-in fight-or-flight instinct. When facing market volatility, your natural response is to look for ways to stop the free fall, often by selling your investments. The challenge is that countless other investors are trying to do the same to buffer their losses. When you get a critical mass of investors heading for the exit you get a market sell-off that can send prices lower in a hurry. Before you realize what's happened, much of the sell-off may already be priced in.

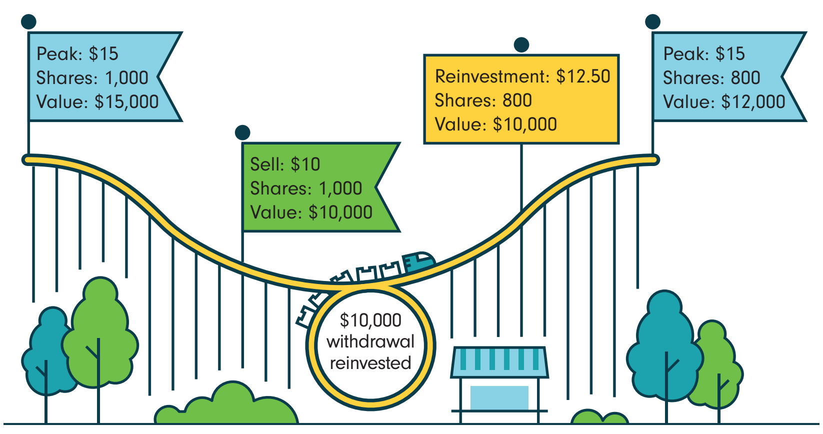
Immediately following a **market sell off**, choosing to sell at this point may only cement your losses. Worse, once you've regained your confidence as the market rebounds, the money you're putting back in may buy you fewer shares than you had previously, setting you farther back from your goals.

Keeping your emotions in check is tough, but if you ever have the urge to sell, remember that markets can rebound as quickly as they fall. Historically, big swings upward have happened frequently over short periods. Miss those days, and you may lose out on the gains that could have made you whole again.

If you're playing the long game, these bouts of volatility can have little long-term bearing on a diversified portfolio. Take a look at a historical chart of the S&P/TSX Composite Index or S&P 500 Index and look for the major market sell-offs or most historic drops. Events like the 2008 financial crisis or the 2000 dot-com bubble bust may have felt significant at the time, but these markets eventually rebounded.

Just remember, as you get closer to your goals, it's important to consider adjusting your portfolio – for instance, shifting to more historically stable investments – to limit your risk to any unforeseen market volatility. If you find volatile periods are too much to handle, then you should re-evaluate your overall financial goals and risk tolerance.

Trading out of fear comes with a cost.



Investor 1
Stay invested through volatility. Net change: 0%.

Investor 2
Fear-driven trade, selling at $10 and then reinvesting the same amount at $12.50 as shares move back up. Although you'd still be investing the $10,000 you withdrew, you'd own fewer shares. The difference from waiting out volatility would be a loss of 25%.

2 Find your comfort zone.

It can be tough to keep your cool when facing adversity, but it becomes much easier if you have a good sense of your own sensitivity to market fluctuations. No doubt you've heard the phrase "high risk, high reward," but how long are you prepared emotionally to stick it out as losses mount?

To help answer that question, consider the following scenario. What would you do if one of your investments lost a third of its value over a three-month period? Put another way: on a $15,000 investment, that 33% drop would be $5,000. Some companies can go on to soar to new highs, but many a company has experienced that type of decline and never recovered. The point is, you never know, and that's the risk.

Drops of that magnitude and speed are not limited to individual companies. Broad market indices like the S&P/TSX Composite Index and the S&P 500 Index have also seen significant pullbacks in recent years. If that type of volatility keeps you up at night, it might be time to **dial back your risk tolerance** and adjust your investment goals.

3 Mix it up – spread the risk.

The fear of missing out is a real thing for investors. On the one hand, most want to chase opportunities that can transform their portfolios, but not everyone is willing – or prepared – to accept the risk that goes with it. But being risk-averse doesn't mean you have to avoid those opportunities altogether; it means you have to moderate how much of your portfolio they account for. That's where diversification comes into play.

When you **diversify your portfolio**, you're protecting yourself from allowing any one investment to drag down your portfolio. There are many different ways to diversify your portfolio, including by

Asset class – With the right mix, when one asset class zigs, another may zag, helping to cushion losses on one side of your portfolio. As an investor, you may be able to capitalize on that by adjusting the mix of stocks, bonds, real estate and other financial instruments in your portfolio to help mitigate your risk. For instance, if you're trying to limit the ups and downs in your portfolio, you might consider adding more fixed income, which tends to be less volatile than other asset classes historically.

Sector – Companies and sectors peak at different times. Even during the bleakest periods on the markets, you'll find companies that shine. An energy company, for example, may not perform as well during a recession when demand for fuel is lower, as a grocer, say, that may benefit as people cut back on dining out. By holding a mix of companies from different sectors, such as commodities, financials, information technology and consumer staples, among others, you help raise the prospect that some of those sectors will rise while others fall, softening the impact market volatility may have on your portfolio.

Market cap – Diversifying your holdings by market cap is another way to help mitigate volatility risk in your portfolio. Generally, investors view large-cap stocks as being more stable and better able to weather most market volatility than small- and mid-cap stocks. While these can be great assets during a rough patch, large-cap companies also tend to grow at a slower rate. Conversely, while small- and mid-cap companies, even in the same sector, may be riskier, they are looking for innovative ways to compete and grow their business.

Geography – While economies are becoming increasingly interconnected, different markets continue to dance to their own beat. Just as holding different asset classes and sectors can help you manage your risk, layering geography into the mix can help strengthen your diversification. Not only can it help protect you if a country – with its own economic issues – runs into problems, but you may also benefit from currency spreads between different markets. Even if indices in, say, Canada and the U.S. are rising at the same rate, a falling loonie relative to the U.S. dollar will raise the value of your U.S. holdings

The more you diversify, the less volatility you're likely to experience.

4 Check your balance.

Managing volatility also means making sure the balance of equities, fixed income and any other asset classes you own remains close to the targets you set in your financial plan. The challenge is that different asset classes will perform at different rates. If left unchecked, a portfolio with a 70-30 split of equities to fixed income might end up closer to 80-20 after a year of market gains. That's great for your bottom line, but it also means you're suddenly taking on more risk than planned.

At least once a quarter, take a moment to check on your asset mix. If it's not in line with your plan, consider selling off some of your winners and reinvest that money in the lagging asset class to bring your portfolio back into balance. While you're at it, check in on the sector and company mix in your portfolio to see if any one business is having an oversized impact on your overall performance.

Just note that **rebalancing** takes time and skill to do effectively – something many investors don't seem to have. Fortunately, there are ways for you to take the work out of rebalancing. Exchange-traded funds (ETFs) like Fidelity All-in-One ETFs can provide an effective and lower-cost way to diversify your portfolio. With Fidelity All-in-One ETFs, holdings are skillfully selected and rebalanced annually for you.

5 Accelerate your performance.

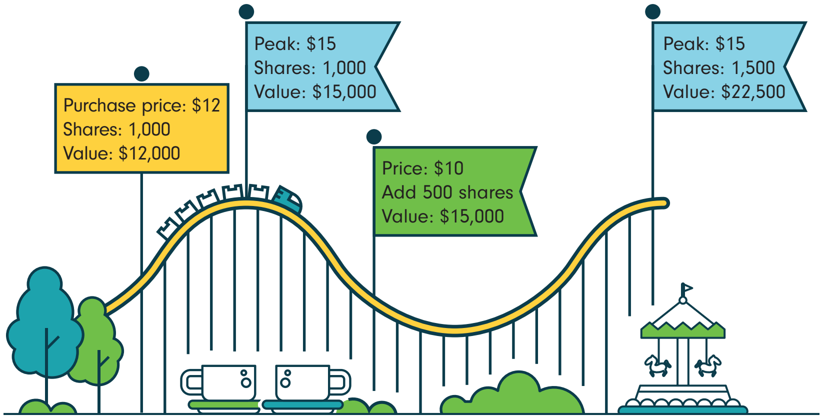
The next time you feel down about market volatility, try changing your perspective. If you're a long-term investor and can wait the period out, this might be the opportunity you're looking for to try to accelerate your portfolio's performance. When you invest money during a sell-off, you're buying investments like stocks and ETFs when they are on sale. Quality companies may become available at discounted prices, which can make volatile periods a great time to add investments to your portfolio.

Of course, researching new holdings takes time and doing it under stress may be more challenging. But if you're confident in the assets you already have in your portfolio, this could be an opportune time to add more by taking advantage of **dollar cost averaging**. It's a simple but effective strategy. Rather than buying shares or units in a single purchase, making recurring purchases over a more extended period of time can help lower the overall cost of your investment. You're buying some shares at a lower price and some at a higher one, potentially giving you a better average per share cost – which reduces the pressure to predict market swings. Better yet, it may help you accelerate your portfolio's performance and have less fear of the dip.

Here's an example of dollar cost averaging.

Dollar cost averaging

	Price	Shares
Purchase	$12	1,000
Additional shares	$10	+500
Total shares		**1,500**
Average cost per share		$11.33



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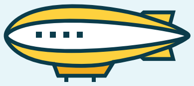

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