



Market Volatility May Not Always Equal Market Risk

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There is a widely held misconception in the investors mind (most likely drilled in by the financial media) which is perceived that Market Volatility- the current roller coaster ride – always equals Market Risk. The current volatility, brought on by anything from the Greece Debt concern, high unemployment, double dip recession, government spending, or (insert concern here) have pulled the markets back around some 14 percent from its peak as of this writing. With this temporary pull back comes the clamoring of the financial media that the risk to investors-and some might say more accurately, day traders- is headed back to the lows of March 9th 2009. Which triggers investors to think...Oh no, here we go again! However, these thoughts may not occur as often if the average investor understood that Market Volatility does not always equal Market Risk...to the long term investor. Or just allow the advice of Warren Buffett to sink in, who was quoted to say in his 2009 Annual Report, *“We’ve put a lot of money to work during the chaos of the last two years...Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance.”*

Allow me to explain further. Market Volatility may be **the** thing that will help get the long term investor through retirement, and by hoping away volatility, the investor may be removing growth potential for reaching success. The reason equities (stocks) have historically provided better returns then compared to other assets classes, such as bonds or cash, can be directly related to its volatility (and the ability of some money managers to capitalize on this volatility). Let’s step back a moment and break it down: If an asset class doesn’t have or has very little volatility its price movement becomes more correlated to a fixed asset, such as a bond. Knowing this historical correlation and understanding that the average retired couple- retiring at age 65 today- will have a high probability that one of them may live another three decades in retirement. In addition, the realization that their cost of living will continue to rise throughout those three decades, in my opinion the only rational conclusion is that they *need* the Market Volatility of an asset class that can provide the potential of buying low and selling high. This would provide the potential for growth necessary to maintain their lifestyle with the rising cost of living. If you still doubt me, take a look at the cost of a U.S Postage stamp in 1946, the beginning of the baby boomers, and look at it now. In 1946 the US postage stamp was three

cents and today it stands at forty four cents...this is real life chewing away at their purchasing power.

Conversely, many investors go into retirement knowing that they have a set cost to cover and *feel* uncomfortable with the volatility that equities brings, so they place too much monies into fixed assets because they *feel* better today. What they don't understand is that they are potentially comfortably losing purchasing power- over what could possibly be three decades of retirement. Why? A fixed investment portfolio lacks the potential for growth typically required to keep up with the rising cost of living. And this is one of the real risks of retirement...outliving ones income. I know what you are thinking; did he just tell us to place 100 percent of our monies in stocks in retirement? The answer is NO, I did not say this. You need to speak to your advisor, preferable a CERTIFIED FINANCIAL PLANNER professional™, to build the correct diversified portfolio for you. However, I believe it needs to have equities be a component of the overall mix.

The newly acquired knowledge of these simple facts, that Market Volatility may not equal Market Risk and understanding the difference between the two, will hopefully allow the average investor to be able to not only stomach the coming ups and downs the markets will bring but hope for them. With this, I leave you with one more quote from Warren Buffett (hey, if your going to quote someone...quote the best), *"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."* And that's all I got to say about that (Forrest Gump).

Disclosures:

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