

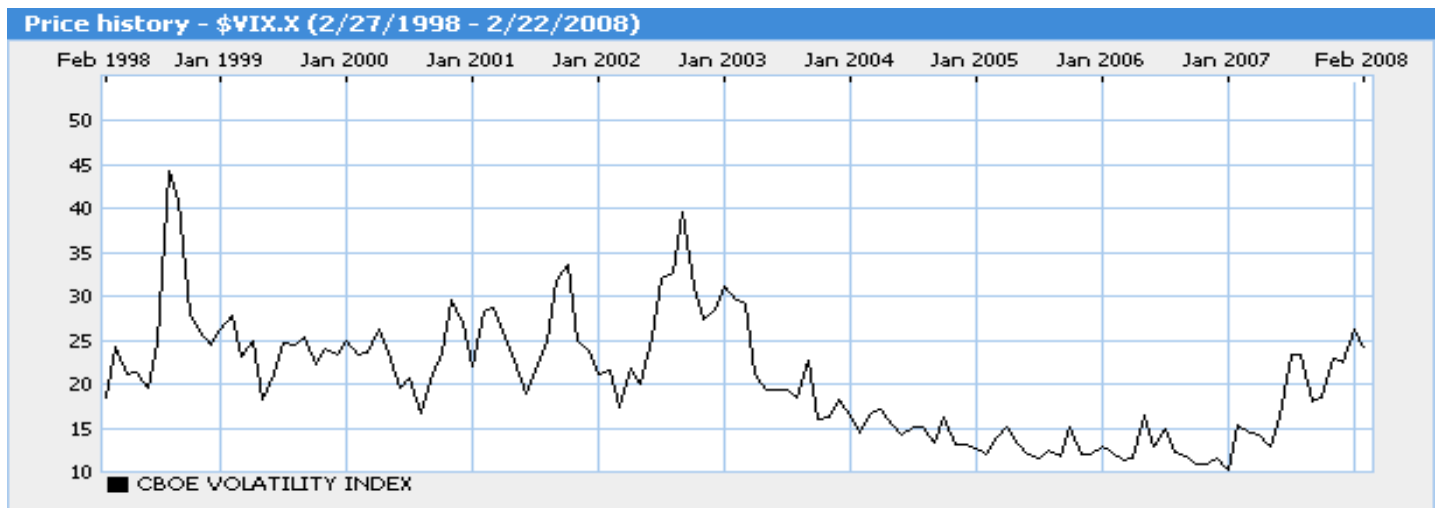
# StrategyAlert: Market Volatility

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## Déjà View

The wild swings we've seen in the stock market are enough to make even disciplined investors nervous. Daily triple-digit gains and losses on the Dow Jones Industrial Average have become commonplace. Understanding the reasons behind the volatility can help you make prudent decisions in a tumultuous environment. But investors should also recognize that, as the VIX (volatility index) below shows, current market volatility is nothing new when put in historical context.



**Chart 1: Volatility Back in the Picture**

(Source CBOE)

## Uncertainty Feeds Volatility

The housing slump and credit crisis have greatly strained the economy. Economic growth has slowed and consumers are feeling the bite of higher energy prices and plummeting home values. Hiring has slowed down and foreclosures have risen to record highs. Although the Fed has vowed to help the struggling economy with stimulative interest rate cuts, the financial markets remain nervous. Investors are scrutinizing every new piece of economic data, trying to gauge the severity of the slowdown underway.

## What's Really Going On?

Current market volatility, as we have emphasized, is nothing new when put in historical context. Investors experienced volatility of this kind most recently in 2002. It also characterized much of the decade prior to that. But since 2002, the U.S. has been riding a wave of ever-expanding corporate profit growth, easy money and indiscriminate buy-anything-invented on Wall Street. Risk was all but forgotten until late 2007, when the subprime lending disaster and the housing meltdown suddenly provided a rude awakening. And we continue to feel the ripple effects of a credit crisis that has hit institutions and individuals in both direct and indirect ways. As a result, the financial markets are simply pricing risk premiums back to where they belong. But risk is often hard to quantify, especially when the economy is a moving target, making the risk repricing process a bumpy road that leads to heightened volatility.

### ***What Should Investors Do?***

Making investment decisions based on tops and bottoms in a choppy market is difficult to do, let alone do well or with any consistency. And trying to prevent emotion from dictating decision-making is one of the toughest obstacles to overcome. A better approach is to stick to a disciplined plan that is anchored by a well-diversified portfolio. As history shows, chaos provides as much opportunity as uncertainty. And whether current market volatility provides chaos or opportunity within your portfolio is determined by how well you have allocated your assets across a mix of stocks, bonds and cash. The good news is that it is never too late to build well-diversified portfolios. So if you don't have one, now is the time to build one.

### ***Take Advantage of Market Weakness***

Let market weakness work for you, and use both cash holdings and market pullbacks to add to positions that provide additional diversification benefits or timely opportunities. The whole point of building a diversified portfolio is to manage risk while you are pursuing returns. Usually when one asset class (e.g., stocks) is falling in value, others (e.g., bonds) will be gaining in value. Over time, research shows that the combination of these asset classes, which do not move in sync with each other, generates positive returns while simultaneously reducing the overall level of risk in the portfolio.

### ***Need More Help?***

If you need help with building a diversified portfolio, take a look at TD AMERITRADE's WealthRuler (on screen under Planning & Retirement), which can help you sort out your long-term financial goals, risk tolerance and saving and investing needs. Once your goals are established, using our Portfolio Planner can be the next step in creating an appropriate asset allocation strategy and achieving a well-diversified portfolio (on screen go to Portfolio, under Portfolio & Accounts). For those who want a bit more assistance investing in volatile markets, please visit the TD AMERITRADE branch nearest you (on screen use our Branch Locator on the Contact Us page, under Client Service) or contact a Client Services representative for a free review of your financial goals and objectives with one of our Investment Consultants.

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