Understanding Market Volatility

Making sound investment decisions in a tumultuous market can be tough. Large declines and triple-digit reversals of the Dow Jones Industrial Average are bound to make many investors nervous.

Credit Crunch

Lehman Brothers filing for Chapter 11 bankruptcy protection and other developments in the financial sector have done little to ease investors' concerns about the economy. Worries that Congress would fail to come up with a rescue plan for the credit markets culminated in a 777-point drop in the Dow Jones Industrial Average on September 29, 2008, the largest daily percentage drop since 2001. But keep in mind that stock markets have survived major crises before, including wars, economic recessions and bank failures. And while the Dow experienced its largest point drop ever on September 29th, it followed with its third biggest point gain the very next day.

Volatility Put in Perspective

Although recent swings in the Dow have been extreme, market volatility is nothing new when put in historical context. Substantial pullbacks have happened throughout the history of the market and often those periods have been followed by bull markets. From 2003 to mid-2007, U.S. stocks enjoyed a stable and steady rise, bolstered by healthy economic growth, swelling corporate profits and plentiful credit conditions. "So investors forgot about risk, and the lower volatility they experienced then reflects that," says TD AMERITRADE Chief Investment Strategist Stephanie Giroux.

As disaster struck in late 2007 with the subprime mortgage meltdown, investors rediscovered risk in the form of heightened uncertainty, and volatility started to re-emerge. The Fed and the Treasury soon intervened to steady the financial markets. But economic growth has slowed, inflation is on the rise and consumers are feeling the bite of gasoline prices, declining portfolios and plunging home values.

What You Should Know

Trying to time market tops or bottoms is extremely difficult. A better approach is to adopt a disciplined plan for investing, and build a diversified portfolio that seeks to manage risk while delivering returns. As Giroux points out, "Volatility can tempt you into making decisions based on emotion, but stick to a process. Panic is not a winning investment strategy."

Ways We Can Help

TD AMERITRADE can help you build a diversified portfolio with a variety of tools and services. WealthRuler (under Planning & Retirement) can help you sort out your long-term goals, risk tolerance and saving and investing needs. Portfolio Planner can help you create an appropriate asset allocation strategy and achieve a well-diversified portfolio (go to Portfolio under Portfolio & Accounts). For all of Stephanie Giroux's latest commentary on the markets, go to the Investing Strategies section of the Ideas page (under Research & Ideas). For those who want a bit more assistance investing in a volatile market, you can visit the TD AMERITRADE branch nearest you (use our Branch Locator on the Contact Us page under Client Services) or contact a Client Services representative to arrange for a free review of your financial goals and objectives with one of our Investment Consultants.

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