Russell Investments

Investor

Winter 2016

Staying the course

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Why you should stay invested

#1

When governments change hands, people often become uncertain about the future. And financial markets typically don't like uncertainty.

They can become volatile, with "market corrections" occurring in all kinds of areas. The performance, good or bad, of stocks and other investment solutions comes under intense scrutiny. Some investors rush into cash or other holdings typically considered to be lower risk, in an attempt to get away from market downturns.

In unpredictable markets, it might be tempting to follow the crowd and move your money out of investments and into cash.

But hold your nerve. Warren Buffett, the multibillionaire "Sage of Omaha" has seen the previously languishing banking and financial stocks in his Berkshire Hathaway holding company soar in value by billions of dollars since the 2016 election.* (November 8 through November 22, 2016.)

Instead of thinking about safe havens in times of change, Buffett states that you should "…only buy something that you'd be happy to hold if the market shut down for ten years."**

But how does this apply to the average investor who relies on investments in multi-asset portfolios to grow and finance their future?

Volatility offers opportunity as well as risk

#2

If you continue to invest when others are selling their stocks and leaving the markets, you typically are buying when prices are low.

So if you maintain your investment plan, and save regularly into a well-balanced portfolio with a substantial exposure to a good mix of stocks, bonds and real assets, you could be boosting your savings. If the market gets back on track and confidence returns, you should be in a far better position for growth.

Some of the worst slumps and reversals in the U.S. stock market turned out to be the best times to invest—in May 1932, right in the middle of the Great Depression, for example, or in July 1982, when the U.S. economy was in the middle of one of its worst recessions.

The lesson is that volatility and short-term falls in stock prices have historically been profitable for investors in the longer term.

These times are precisely when you need a diversified portfolio that includes stocks, bonds and other holdings across a wide range of asset classes.

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Investment fundamentals versus changes in government

#3

Another surprising insight is that the political party in government, and in particular the political party that the president belongs to, has historically had hardly any bearing on the performance of the U.S. stock market.

More useful indicators include interest rates, corporate earnings growth and valuations of companies.

But for the average investor, these variables are unknown and unpredictable. So you may choose to rely on fund managers and financial advisors to work out an investment strategy that applies to your unique circumstances.

More specifically, your advisor can develop a plan that accounts for your investment time frame, acceptable levels of risk, your income and the sums you should invest to help provide a financially secure future.

Investing is a long-term strategy

#4

Your investment strategy can depend on many things, but for most people a comfortable retirement is the main goal.

If you have a longer time frame to work with, you might decide to take on more risk for the potential of higher returns. That means considering investments with a high level of exposure to stocks.

When your investing goal is more near term (i.e., retirement is 5, 10 or fewer years away), a mix of fixed income investments might be more in line with your risk tolerance, but the riskiest strategy might be to not invest your money in the markets at all.

Retreating to cash during uncertain times may mean missing out on periods of strong market performance and potentially rewarding long-term investment returns. In other words, don't panic – *stay invested.*

* http://www.cnbc.com/2016/11/22/warren-buffett-sees-7-billion-dollar-boom-on-donald-trump-win.html

** http://www.forbes.com/sites/agoodman/2013/09/25/the-top-40-buffettisms-inspiration-to-become-a-better-investor/#10594955250d

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Investors should consider how the combined risks impact their total investment portfolio and understand that different risks can lead to varying financial consequences, including loss of principal.

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