Financial markets often go through phases of relative calm followed by abrupt and often unanticipated spikes in volatility. It is important for investors to understand that volatility is normal and beyond our control. However, we can control how we react. Generally, the best reaction is no reaction at all. Pulling out of the market when it is volatile can lock in losses and could lead to missing out on any subsequent rally. Here are six good reasons why staying invested for the long term is almost always the best way to navigate market turmoil:

1. Market timing is difficult.
   Ask the most experienced investors, and many will tell you that drastic allocation shifts in an effort to time the ups and downs of the market is immensely challenging.

   As much as any investor would like to avoid market downturns and take advantage of rallies, to do so means getting out at the right time and knowing exactly when to get back in. Without a crystal ball, those are difficult calls to make with potentially adverse effects on your portfolio. Since no market cycle is the same, it isn’t easy to anticipate market movements. All sorts of factors—politics, monetary policy, business activities (such as corporate mergers), and sudden international shocks (such as the global pandemic in 2020, the oil-price shock in the 1970s, and the tech bubble in the early 2000s)—can spark a market reaction.

   If your timing isn’t perfectly accurate, you could miss out on potential rallies, which are virtually impossible to predict.

   The chart below shows that missing even a few days of positive market activity can impact your portfolio.

   ![Chart showing impact of missed market activity](chart.png)

   Source: Russell Investments, Confluence. Returns based on S&P 500® Index, for 10-year period ending March 31, 2020. For illustrative purposes only. Indexes are unmanaged and cannot be invested in directly.
2. **Selling during a correction is betting against the odds.**

History suggests that periods of sharp declines have often been followed by periods of some of the most favourable returns. Figure 1 shows the strong returns of U.S. markets during the 12- and 24-month periods following some of the sharpest declines of the past 40+ years. The strong historical tendency of markets to rebound provides some evidence that fear-induced dramatic alterations to asset allocation are unnecessary for investors who simply stay the course.

**Figure 1: U.S. equities have bounced back from market shocks**

S&P 500 Index returns after steep market declines

3. **The likelihood of negative long-term returns for a balanced portfolio has historically been very low.**

Stocks have historically outperformed bonds when based on average rolling returns over one, three, five, 10 and 20 years. Just as compelling is the traditional ability of a balanced portfolio to produce positive returns. Figure 2 shows that a global balanced portfolio of stocks and bonds has not produced a negative return over any five-year rolling period since 1980. The bottom line is that, although there are no guarantees that the future will resemble the past, history tends to favour long-term investors.

**Figure 2: Diversified portfolio has done well in long term**

% of time diversified 60/40 mix produced positive returns (Based on rolling returns, January 1980 - March 2020)

4. **Volatility breeds opportunities.**

While economic uncertainty will always be a cause for investor anxiety, the resulting market volatility has historically offered active managers in equities and bonds the potential to better position portfolios for the longer term. Markets sometimes get over-exuberant and prices become excessive, but the opposite is also true. Short-term periods of crisis can push prices artificially low, creating excellent opportunities to buy. Russell Investments portfolio
managers as well as the independent sub-advisers we hire, can take advantage of temporary mispricing in the market. By doing so, it’s possible to plant the seeds of potential long-term profits during periods of uncertainty.

5. Market volatility provides an opportunity to rebalance.

If a crisis creates an opportunity, then portfolio rebalancing is perhaps the best way to take advantage of that opportunity. When comparing assets within a portfolio, rebalancing means selling assets that have gained in value and buying assets that have fallen in value in order to maintain the overall strategic asset allocation of a diversified portfolio. During a market correction, this should result in buying more assets that have decreased in value—an essential part of the process of buying low and selling high. As Figure 3 highlights, an asset allocation that is systematically rebalanced has produced a modest return advantage, but more importantly, has managed risk over time. Systematic portfolio rebalancing is a crucial aspect of Russell Investments’ portfolio approach. In essence, it provides investors with increased exposure to opportunities that are likely to pay off in the long run.

Figure 3: Rebalancing vs. Buy & Hold
Potential benefits of hypothetical rebalancing comparison of $500,000

6. Diversification can be most effective when markets are uncertain.

Over time, financial markets deal with numerous crises. To name a few over the last two decades, there was the technology bubble, a credit bubble, the U.S. subprime debt crisis, the sovereign debt crisis in the Eurozone, and the economic impact of the restrictive measures governments around the world have taken in early 2020, attempting to contain the spread of the novel coronavirus COVID-19.

One reason to hold a multi-asset portfolio is in part to spread the risk budget across multiple asset classes in order to mitigate market volatility. Having a robust strategic asset allocation with regular rebalancing can potentially enhance returns, but more importantly, manage volatility. However, from a multi-asset investors’ perspective, longer-term returns have been reasonable. For example, the hypothetical globally diversified asset allocation in Table 1 shows solid returns over the long term.

Table 1: Benefits of Diversification – Annualized Returns

<table>
<thead>
<tr>
<th>INDEX</th>
<th>ASSET CLASS</th>
<th>ONE YEAR ENDING DECEMBER 31, 2019</th>
<th>FIVE YEARS ENDING DECEMBER 31, 2019</th>
<th>15 YEARS ENDING DECEMBER 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 1000 Index</td>
<td>U.S. large cap</td>
<td>31.4%</td>
<td>11.5%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>U.S. small cap</td>
<td>25.5%</td>
<td>8.2%</td>
<td>7.9%</td>
</tr>
<tr>
<td>MSCI EAFE Index</td>
<td>Non-U.S. developed</td>
<td>22.0%</td>
<td>5.7%</td>
<td>4.8%</td>
</tr>
<tr>
<td>MSCI Emerging Markets Index</td>
<td>Emerging markets</td>
<td>18.4%</td>
<td>5.6%</td>
<td>7.5%</td>
</tr>
<tr>
<td>FTSE EPRA/NAREIT Developed Index</td>
<td>REITs</td>
<td>21.9%</td>
<td>5.6%</td>
<td>5.8%*</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Aggregate Bond Index</td>
<td>Fixed income</td>
<td>8.7%</td>
<td>3.1%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Diversified Portfolio</td>
<td></td>
<td>19.5%</td>
<td>6.7%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Note: Diversified portfolio consists of 30% U.S. large cap, 5% U.S. small cap, 15% non-U.S. developed, 5% emerging markets, 5% REITs, and 40% fixed income. *The 15-year return of this index is a blended return using FTSE NAREIT Equity REITs TR USD Index through 2/17/2005 and FTSE EPRA/NAREIT Developed Index starting on 2/18/2005. Based on respective rolling period. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.
Where to go from here?

The emergence of the COVID-19 virus in early 2020 is a stark reminder of how quickly trends can shift. Global equity indexes had risen in a relatively steady path for more than 10 years until mid-February. Then, as governments began to shut down international trade, commerce and many industrial sectors in an attempt to contain the spread of the virus, markets retreated sharply. Many key indexes fell to levels not seen since the Global Financial Crisis in 2008. Despite fiscal and monetary stimulus plans to keep economies afloat, markets are likely to remain volatile until the containment measures begin to be lifted.

The extreme swings in financial markets in 2020 may make it hard to stay invested as we watch our portfolios gyrate. But as we have shown, volatility is a normal part of investing, market downturns are eventually followed by market rallies, and history has demonstrated that patient investors have been rewarded over the long term.

- Avoid the temptation to overreact to market movements.
- Reduce risk through proper geographic and asset class diversification.
- Consider multi-asset investing for a more holistic approach geared towards return enhancement but with a natural focus on downside risks.

To find out more, please ask your advisor or contact us at 800-787-7354 or visit us at russellinvestments.com.