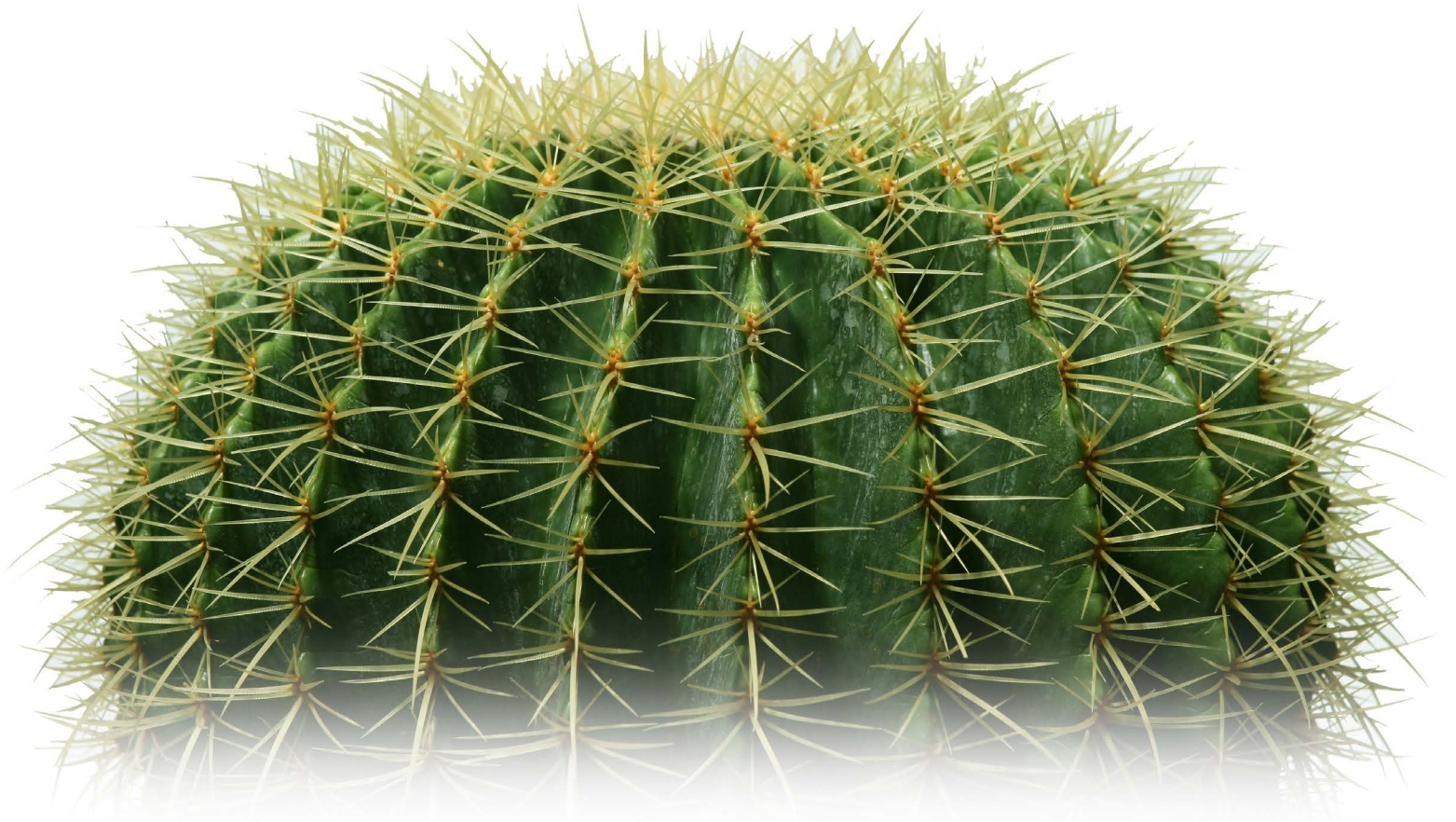


INVESTOR



Managing Market Volatility

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Is now the right time to invest? The answer is yes.

Whether the market is volatile or calm, it's always better to have your money invested and working for you. While investing is risky, and financial markets do go through negative periods, downturns are relatively short-lived and invariably followed by a significant rally that has more than made up for any previous losses.

Of course, when markets get choppy it's normal to feel anxious about your hard-earned savings. No one wants to lose money. Uncertain markets may cause you to worry about your ability to fund your retirement or any other financial goal you may have. You may even be tempted to pull your money out of the market and move it into a safer investment, such as a savings account or Certificate of Deposit (CD).

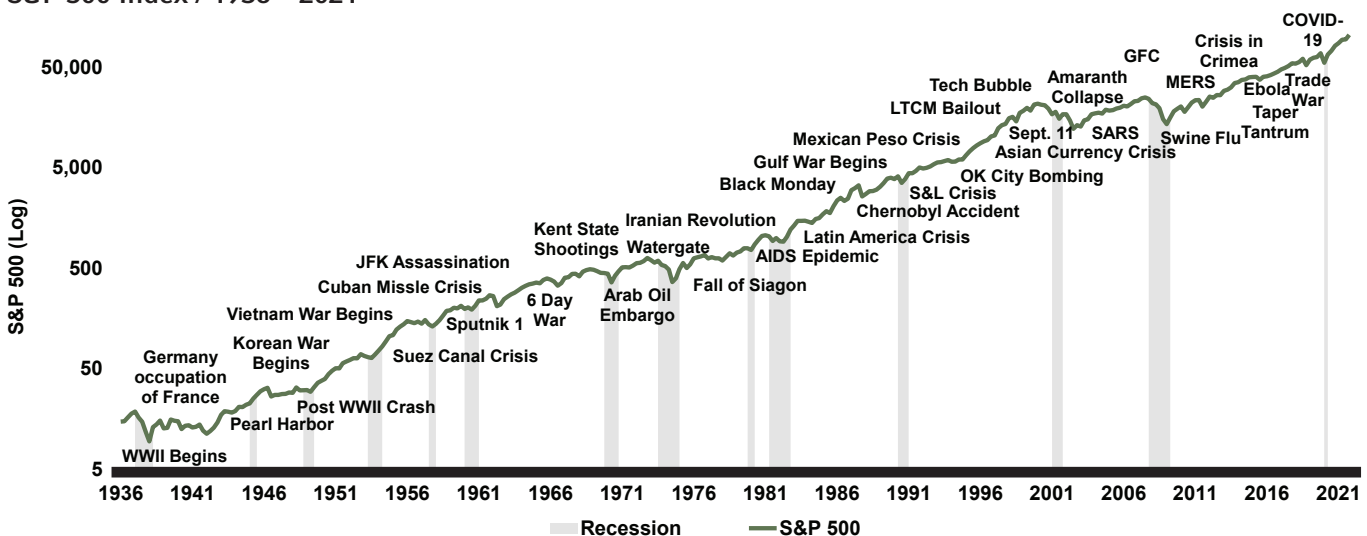
And right now, with inflation at multi-decade highs, a war between Russia and Ukraine, the likelihood that interest rates will rise, the upcoming U.S. mid-term elections, the appearance of new COVID-19 variants and other issues, it seems there are many reasons not to invest in the markets.

But there will always be reasons not to invest in the markets. No matter what time frame you look at, there is always something going on that could present a threat to financial markets.

The chart below shows the performance of U.S. stocks (represented by the S&P 500 Index) over the past 90 years. While past performance is not indicative of future returns, it does help to have historical context. Over the longer-term even wars, virus outbreaks, currency crises and recessions become short-lived blips.

Resilience of the U.S. stock market / History of moving through difficult times

S&P 500 Index / 1936 – 2021



Source: St. Louis Fed & Morningstar Direct. S&P 500: Daily market return index as of 12/31/2021. Log: Lognormal scale.

Volatility is normal

Let's face it – financial markets are cyclical. Volatility is an inherent part of their nature. Different asset classes go into and out of favor. Geopolitics, major news from a key company, unexpected earnings results, changes in public policy, technical factors and any number of events can spark volatility.

It is important to understand that markets go through cycles – and often take our emotions on a wild ride when they do. When investors react to volatility, they run the risk of selling just when the market hits bottom, and then the risk trying to get back in when the market is rising.

Rather than fear volatility, here are three strategies to consider when markets are turbulent.

Take the long-term view.

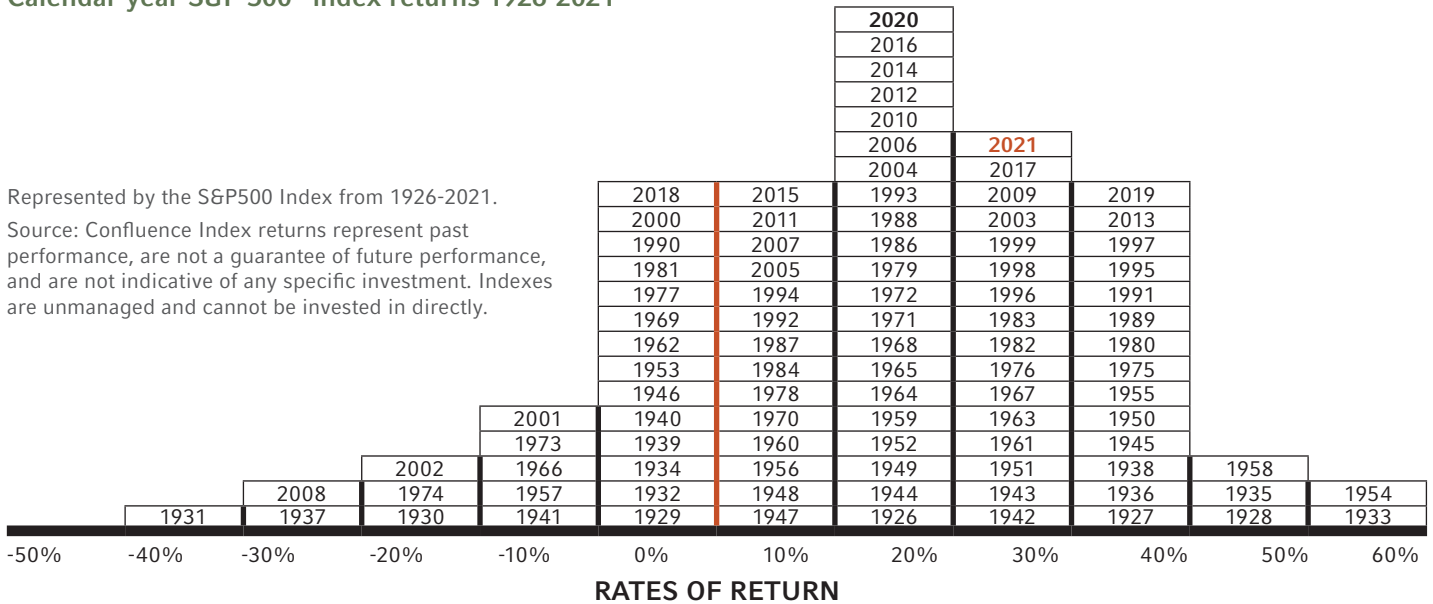
Right now, we may be nervous about the war in Ukraine, soaring energy prices, supply-chain disruptions, the polarized political environment in the U.S., the COVID-19 pandemic or any other geopolitical issue that's out there. But if we step back and take a longer-term view, we can see that the U.S. stock market has had far more good years than bad ones. In fact, the market has ended the year positive 74% of the time since 1926¹. Those are pretty good odds.

¹ Source: Represented by the S&P 500 Index from 1926-2021 Source: Confluence

Calendar year S&P 500® index returns 1926-2021

Represented by the S&P500 Index from 1926-2021.

Source: Confluence Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.



74% of the time, U.S. equity market has posted calendar year returns above zero

Stay invested

It is almost impossible for anyone to accurately predict the market's short-term moves. While there are signals that traditionally have pointed to a downturn – a flattening of the yield² curve has generally preceded a recession, for example – but the exact moment when the market begins its decline is extremely hard to pinpoint.

And market triggers can be unexpected, especially in the geopolitical arena. You may not realize the market is

retreating until it has already declined significantly, and also may not realize the market is in an upward trend until after you have missed the opportunity for gains.

Trying to “time” the market is virtually impossible and getting it wrong could cost you. Even missing the best 10 days over a 10-year period has a significant impact on returns as the chart below shows. And those “best days” can just as easily fall in the middle of a bear market as they can during a sharp rally.

Difficulty of market timing

The investment impact of missing best market days / 10 years ending December 31, 2021



Source: Morningstar. In USD. Returns based on S&P500 Index, for 10-year period ending December 31, 2021. For illustrative purposes only. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

Staying in the market also allows you to take advantage of the power of compounding. Time is your best ally for harnessing the power of compounding in your retirement portfolio. Even a small nest egg, when created early, can become a large one over the years as your investment gains build.

² The U.S. Treasury yield curve refers to a line chart that depicts the yields of short-term Treasury bills compared to the yields of long-term Treasury notes and bonds. The chart shows the relationship between the interest rates and the maturities of U.S. Treasury fixed-income securities.

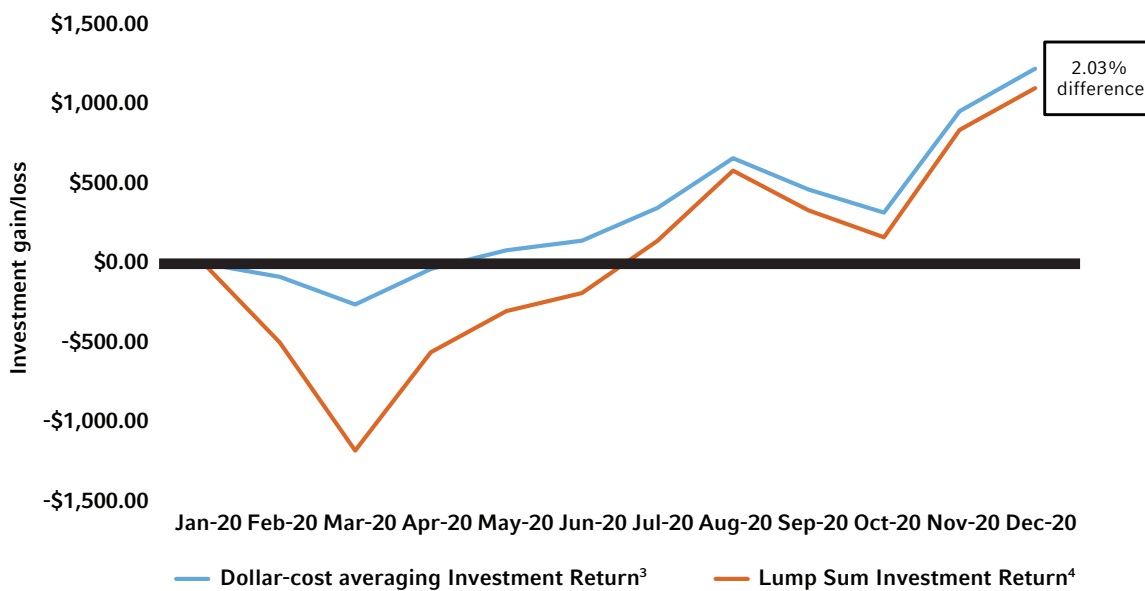
Make volatility work for you

Volatile markets can provide the opportunity to buy low and sell high. The problem is – how do you know when the market is going to go down and when it is going to go up? Markets are notoriously unpredictable and even during bear markets there can be days when markets spike higher. The opposite is true in bull markets.

One way to take advantage of market volatility is through dollar-cost averaging (DCA). This strategy takes the emotion out of investing and ensures you stay in the markets through thick and thin.

The way it works is you invest equal amounts of money on a regular schedule, over a chosen time period. You decide how much you want to invest, how often and for how long.

Dollar-cost averaging does not assure a profit or prevent a loss when markets are declining, and you need to be prepared to stick to your plan when market prices are low. But as you can see from the chart below, which shows the difference between making a lump-sum investment and dollar-cost averaging in a volatile year such as 2020, DCA can help smooth out your returns and can potentially provide higher return.



Source: Russell Investments. Based on a hypothetical investment of \$6,000 in the S&P 500 Index.

Here's another way to look at DCA. The chart below illustrates five different investing strategies. In each case \$12,000 was invested each year over 10 years:

- 1. Investing at the market low point every year.** This would entail having a crystal ball and is implausible.
- 2. Investing on the first day of trading each year.** This is an ideal strategy but it does require a lot of discipline.
- 3. Dollar-cost averaging.** In this case, investing \$1,000 on the first day of every month.

4. Investing at the market high point every year.

This is also implausible but shows that even being an incredibly unlucky investor is better than the last strategy.

- 5. Remaining in cash.** The \$120,000 invested over the 10-year period barely grew.

Dollar-cost averaging is relatively easy to implement, can be done automatically and is almost as profitable as the impossible-to-do first strategy.

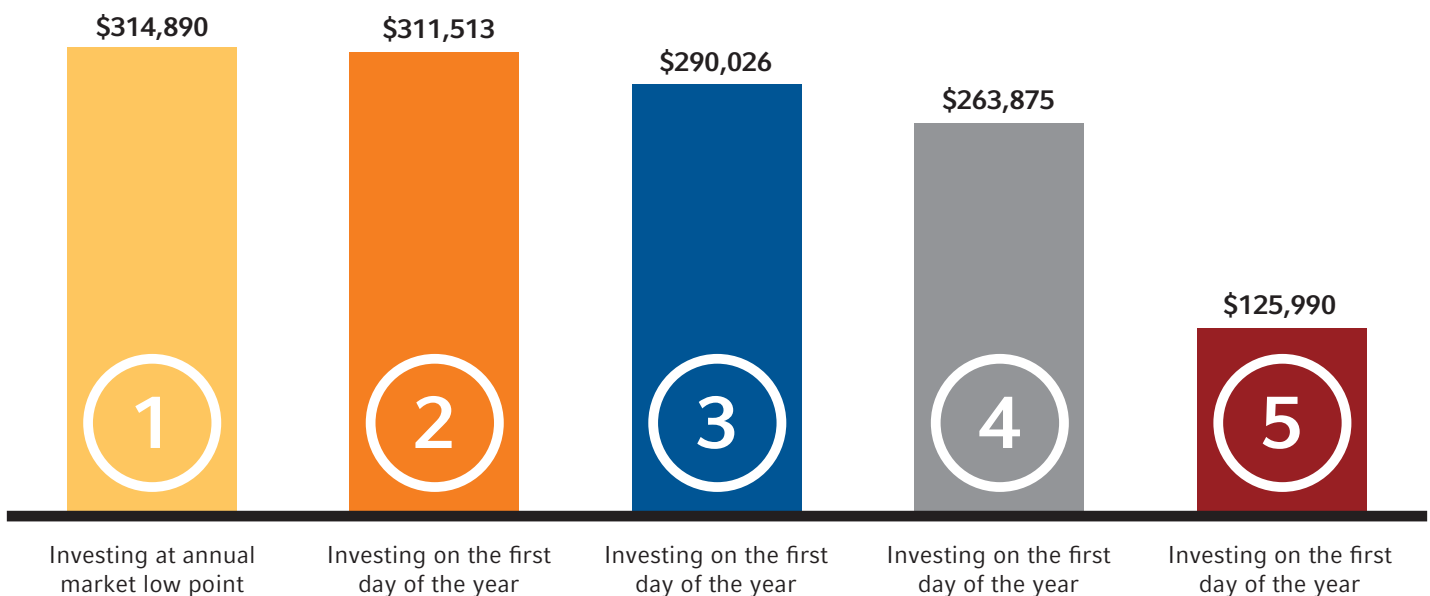
³ Dollar-cost averaging return assumes 12 contributions of \$500 a month starting January 1, 2020.

⁴ Lump Sum return assumes a one-time contribution of the full amount on January 1, 2020. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

Be invested, stay invested / Record \$21,000,000,000,000 in cash

1 Perfect timing	2 First of year	3 Dollar cost averaging	4 Perfectly wrong timing	5 Holding cash, no investment
This strategy is ideal, yet implausible.	Investing your money for the most amount of time can yield the most gain in most market environments	A popular rules-based strategy. Can help investors cope with uncertain or volatile markets.	Despite bad timing, assets invested in the market may grow faster than if left in cash.	Holding cash too long can result in the least growth of wealth.

Hypothetical ending wealth after investing \$12,000 per year / Period ending December 31, 2021



Note that one year represents a 12-month period ending December 31st.

Assumes an investment of \$12,000 per year into a hypothetical S&P 500 Index portfolio with no withdrawals between Jan 1st, 2012 and Dec 31st, 2021. Source: Russell Investments.

Cash return based on return of \$12,000 invested each year in a hypothetical portfolio of 3-month Treasury bonds represented by the FTSE Treasury Bill 3-month Index without any withdrawals between Jan 31st, 2012 and Dec 31st, 2021. Source: Morningstar.

Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Hypothetical analysis provided for illustrative purposes only.

Cash in the title: M2: M2 is a measure of the money supply that includes cash, checking deposits and deposits that are easily converted to cash, such as bank accounts. As of Nov. 30, 2021.

The bottom line

There's no doubt about it – investing is risky. But as noted above, the odds are in your favor IF you maintain a long-term view and stick to your plan. As well, a portfolio that contains a broad mix of globally diversified stocks and bonds will likely be less volatile than one that is highly concentrated in an asset class or sector or region. That's because losses in one area are generally offset by gains in another. Stocks and bonds tend to move in opposite directions, and geopolitical events impact different regions in different ways. Most importantly, a well-thought-out investment plan can help give you a sense of security to ride out the volatility. At Russell Investments, we stand beside investors to help them reach their investment outcomes. Learn more in our dedicated resource center – [Managing through Volatility](#).

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