By Cleopatra Jones, CTFA, CFP®

Market Volatility – How to Enjoy the Ride

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The Orient Express – a roller coaster at Worlds of Fun in Kansas City, MO that ran from 1980 to 2003. Standing in at 117 feet high with a 115 foot drop this steel beast rattled at break-neck speeds; feelings of nausea, excitement and terror blurred together for riders like the park landscape beneath the steel cars. To add to the disorientation, the Orient Express flipped riders upside down with two inverted loops and the first ever double loop called the Kamikaze Curve!

When the train finally pulled into the station you could see a mixture of emotions on people's faces as they stumbled from their cars. Some were elated; their excitement evident on their smiling faces. Other passengers, however, looked like they wished they had taken the exit when they had the chance.

Remember these headlines?

- "Worst Crisis Since '30s, with No End Yet in Sight," *Wall Street Journal*, 9/18/2008
- "Panic Grips Credit Markets," *Financial Times*, 9/18/2008
- "Global Economic Shock Worse Than Great Depression," *Huffington Post*, 5/8/2009
- "Financial Crisis is the Worst the World has Ever Faced," *Daily Telegraph*, 10/7/2011

The Great Recession of 2008. Big job cuts, bigger bailouts and subprime mortgages popping like bubble wrap. GDP fell 4.3 percent during this time (www.federalreservehistory.org) and the stock market crashed 54 percent (*Forbes*) when all was said and done. For many investors, this market crash redefined the meaning of market volatility. Day after day headlines like the ones listed above flashed on every media news outlet. The financial sector was falling faster than the Orient Express in a vertical dive causing many investors to throw up their hands screaming. At the time, it seemed like that ride would never end.

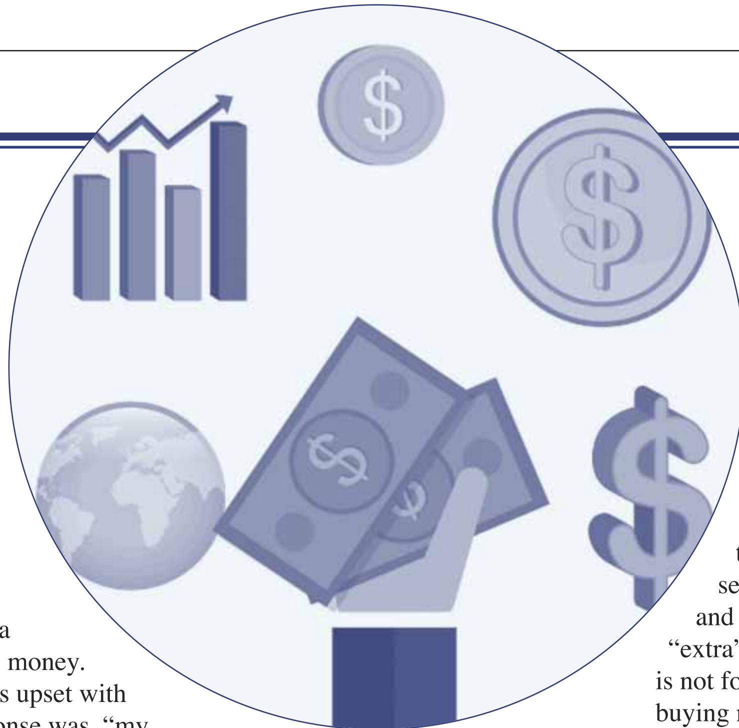
But it did.

If you had invested $10,000 in a mutual fund that was geared towards growth at the end of the Great Recession – with no additional contributions, no distributions and dividends reinvesting automatically – your investment portfolio would be worth roughly $72,000 today. That's an average annual return of 16 percent. Not too shabby. But if the thought of that kind of risk makes you queasy, let's look at some truths about investing.

Now, the lawyers want me to let you know that no investment strategy can guarantee positive returns, historical performance is no indication of future performance, and securities are not FDIC insured. They're not wrong, but I'm here to tell you – no risk, no reward.

Truth #1 – There is no such thing as "risk-free" investing.

Risk can only be managed not eliminated. So, when we look at traditional investments, like stocks and mutual funds, you need to balance the risk to our portfolio with the potential for satisfactory returns. I remember working with two sisters who had inherited equal amounts of money. They each opened accounts at roughly the same time but invested very differently. One sister invested



aggressively in the stock market and selected investments that were high risk. The second sister was more conservative in her investment choices. Time went by and the second (conservative) sister was upset because her portfolio had performed “poorly”. In review, her portfolio had performed within expectations and earned a modest return. She made money. When asked why she was upset with positive returns her response was, “my sister’s portfolio earned more than mine.” The first sister assumed more risk and reaped the rewards. Keep in mind, in a down market the pendulum could easily have swung the other way.

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ACTION: Manage risk. There are many investment options available, even for the conservative investor, so choose investments that you’ll be comfortable with even in volatile market conditions. When selecting quality investments that have higher risk, you have the potential for higher returns.

Truth #2 – You need to be okay with the ups and downs.

The Great Recession was a severe market crash that shook the train cars of even the most seasoned investors. The market bottomed out in March of 2009 with the DOW closing at roughly 6,470 points. Since then, it has recovered to over 33,000 points, but it wasn’t a straight ride up. During the past 15 years, the DOW has had at least a dozen stomach-flipping dips. While the uncertainty of the market can wreak havoc on your peace of mind, understand that discipline and clear financial goals are what it takes to come out ahead when facing market volatility.

ACTION: When the market starts moving down it is not the time to panic. That’s the time to review your portfolio, consider your financial goals and make decisions based on your timeline. Don’t panic – PLAN.

Truth #3 – Good investors think long-term.

You are an investor with the financial goal of accumulating wealth for a specific purpose. Do not invest money you’re going to need for daily living expenses or unforeseen emergencies. There are few things more unsettling then seeing your portfolio value drop and knowing that that’s all the “extra” money you have. This bucket is not for going on a shopping spree, buying new tires for your vehicle, or to help “make ends meet”. If you want to build an investment portfolio your “ends” need to be overlapping, not just meeting.

ACTION: Establish an Emergency Fund. These are funds in a traditional bank account that are used for unexpected expenses. The average balance should be at least 3-months of your total average living expenses (6-months if you’re married). You wouldn’t get on a roller coaster without a seat belt so don't invest in the stock market without an Emergency Fund.

Truth #4 – You're probably going to lose money.

At some point, you're going to have unrealized losses. This is when the market value of your investment portfolio falls below the amount you put into it. If you don't sell out, and the security doesn't go to zero (companies do go bankrupt), then your loss is "unrealized". You'll still have the potential to recapture your principal (and possibly, gains) when your investments rebound. However, if your portfolio value is down and you decide to sell your investments then you will have a realized loss. And there is no recovering from that. Buy, sell or hold – expect your hair to get tousled.

ACTION: There are many twists, turns and upside-down moments in the life of an investor. The goal is to pull into the station safely with more than you started with, but that doesn't necessarily mean more money. Sometimes what you walk away with is knowledge. The market will teach you lessons about researching companies, understanding the U.S. and global economies, patience and much, much more. Count your winnings or learn your lessons. Then, move onto the next investment.

Truth #5 – Investing isn't for everyone.

Market volatility is a natural part of investing in the stock market. You can't avoid it, nor should you want to. Downturns in the market are a prime time for investors to purchase quality investments at a bargain price. When the market gets rocky don't be discouraged or make decisions based on emotions. Focus on your financial goals and look for those hidden gems. However, if you're the type of person who is going to lose sleep worrying about their investment portfolio, then the market isn't for you. You're not tall enough to ride this ride. And that's okay.

ACTION: Follow your gut, not the group. As stated earlier, there are many options available for conservative investors. While the potential for returns may be lower you can't put a price on a good night's sleep.

Float Trips

If you're more of a float trip person and you want a stable way to add secure, FDIC-insured assets to your portfolio, consider Central National Bank.

Central National Bank was recently named among the strongest banks in the Kansas City region by the Kansas City Business Journal. The criteria used to determine the top performing banks included the Problem Loan Ratio, Texas Ratio, Core Capital Ratio, Equity Capital level and the total dollar volume of Loans and Leases for 2022.

The recognition highlights that Central National Bank is a safe place to deposit funds, with 82.01% of deposits covered by FDIC insurance. The bank's portfolio of $657.7 million in loans has only 0.12% problem loans, positioning the bank to weather even a difficult economic environment.

"Safety and soundness has been our bank's priority throughout our nearly 140-year history," said Sara Girard, Chief Executive Officer and fourth generation member of the Rolfs family to be involved with bank management. "We work to provide stability and security for our customers through our prudent risk management, our investment decisions, our lending decisions, and our products and services."

Central National Bank is based out of Junction City, Kansas. Founded in 1884, Central National Bank has bank locations in 23 communities across Kansas and Nebraska. Their mission has always been to support and strengthen local communities through employee involvement, corporate citizenship and technological innovation.

Please note: Securities are NOT deposits, NOT FDIC insured, NOT insured by any government agency, NOT guaranteed by the bank, are subject to risk and to a possible loss of principal.