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ELECTION SEASON: PREPARING FOR MARKET VOLATILITY

We're only weeks away! Polls indicate a strong possibility of big changes on the horizon after election day. Some pundits are even wringing their hands over the prospect of a contested outcome.

Financial pundits are having an even bigger field day. Will markets soar if Biden wins? If Trump wins? Will markets tank if Democrats retake the Senate? Are we in trouble if the outcome is not clear-cut? If a new relief package fails to pass? After the COVID downturn, could it get any worse?

Anyone who claims to have a crystal ball should be taken with a grain of salt. What we can expect in a hotly-contested election year—and this has already been quite a year—is increased volatility.

Volatility refers to the tendency of a security, an index, or the market as a whole to experience short-term swings in value—either up or down.

Speculative investors can win big by timing their trades right, buying low and selling high over a matter of days. But if they get the timing wrong, they could also lose big.

Buy-and-hold investors, by contrast, fall back on the advice to ride out the rough spots—they're in it for the long term. But that can be hard to do when they see their portfolios lose thousands of dollars in value in one day … especially if retirement is creeping up on them.

Investors should approach a tumultuous election season the same way they might approach any period of high volatility in the market.

Here are some basic do's and don'ts:

- **DON'T** panic-sell. A big part of successful investing is managing emotions, and fear is a whopper. It's scary to see your portfolio take a quick nosedive, but no one ever succeeded in the market by selling low. Yes, it could fall lower, but the nature of a volatile market is that it could go back up just as suddenly. Talk to your advisors about any selloff you are considering—we have no incentive to keep you in a position we think is a long-term loser.

- **DON'T** rush into a new equity position, unless your experience tells you that you are getting in at a good price. For investors without strong business analysis skills, keeping your cash position may be the smarter play.

- **DO** talk to your broker or advisor about placing some limit orders. A limit order is a standing order to buy or sell securities at a certain price. They can be pricier than market orders, but in a volatile market the price of the security when you place the market order may not be the price you get—for better or for worse. A limit order can help you get into positions at the right price, and get out of positions in time to mitigate losses.