

# 5 THINGS YOU NEED TO KNOW TO RIDE OUT A VOLATILE STOCK MARKET



*“The market seems to be up one day and down the next. I’d rather wait before investing.”*

## 1 | WATCHING FROM THE SIDELINES MAY COST YOU

When markets become volatile, a lot of people try to guess when stocks will bottom out. In the meantime, they often park their investments in cash. But just as many investors are slow to recognise a retreating stock market, many also fail to see an upward trend in the market until after they have missed opportunities for gains. Missing out on these opportunities can take a big bite out of your returns. **Consider that in the 12 months following the end of a bear market, a fully invested stock portfolio had an average total return of 37.4%. However, if an investor missed the first six months of the recovery by holding cash, their return would have been only 7.5%.<sup>1</sup>**

The table below is a hypothetical illustration showing the risk of trying to time the market. By missing just a few of the stock market’s best single-day advances, you could put a real crimp in your potential returns.

### Jumping In and Out of the Market May Cost You

20 Years Ended December 31, 2016

Period of Investment	Average Annual Total Return of S&P 500 Index <sup>2</sup>
Stayed Fully Invested	7.68%
Missed the 10 Best Days	4.01%
Missed the 20 Best Days	1.58%
Missed the 30 Best Days	-0.51%
Missed the 40 Best Days	-2.43%

*This table is for illustrative purposes only.*

1. Source: © 2016 Ned Davis Research Group, Inc. Ned Davis Research defines a bear market as a 30% drop in the Dow Jones Industrial Average after 50 calendar days or a 13% decline after 145 calendar days. Reversals of 30% in the Value Line Geometric Index also qualify. As of 12/31/16, 28 bear markets were analyzed from 9/3/29 through 10/3/11. For illustrative purposes only. Indexes are unmanaged, and one cannot invest directly in an index.

2. Source: Standard & Poor’s. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.



*“It’s hard to invest when stocks are this volatile.”*



*“I wonder if I should be more diversified.”*

## 2 | DOLLAR-COST AVERAGING MAKES IT EASIER TO COPE WITH VOLATILITY

Most people are quick to agree that volatile markets may present buying opportunities for investors with a long-term horizon. But mustering the discipline to make purchases during a volatile market can be difficult. You can’t help wondering, “Is this really the right time to buy?”

Dollar-cost averaging can help reduce anxiety about the investment process. Simply put, dollar-cost averaging is committing a fixed amount of money at regular intervals to an investment. You buy more shares when prices are low and fewer shares when prices are high, and over time, your average cost per share may be less than the average price per share. Dollar-cost averaging involves a continuous, disciplined investment in fund shares, regardless of fluctuating price levels. Investors should consider their financial ability to continue purchases through periods of low price levels or changing economic conditions. Such a plan does not guarantee a profit or eliminate risk, nor does it protect against loss in a declining market.

### Dollar-Cost Averaging at Work

Month	Monthly Investment Amount	Share Price	Shares Purchased Each Month
January	\$500	\$9.00	55.6
February	\$500	\$10.00	50.0
March	\$500	\$8.00	62.5
April	\$500	\$11.75	42.6
May	\$500	\$12.25	40.8
June	\$500	\$9.00	55.6
<b>Total</b>	<b>\$3,000</b>	<b>\$60.00</b>	<b>307.1</b>

**Average Share Price:** \$10.00 (\$60.00/6 purchases)

**Average Share Cost:** \$9.77 (\$3,000/307.1)

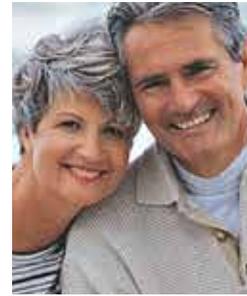
*The average cost of your shares would be \$0.23 less than the average price of your shares over that period. Figures are for illustrative purposes only.*

## 3 | NOW MAY BE A GREAT TIME FOR A PORTFOLIO CHECKUP

Is your portfolio as diversified as you think it is? Meet with your financial adviser to find out. Your portfolio’s weightings in different asset classes may shift over time as one investment performs better or worse than another. Together with your adviser, you can re-examine your portfolio to see if you are properly diversified. You can also determine whether your current portfolio mix is still a suitable match with your goals and risk tolerance.



*“With so many opinions about the market, I don’t know who to listen to.”*



*“We’re sticking to our long-term investment plan.”*

## 4 | TUNE OUT THE NOISE AND GAIN A LONGER-TERM PERSPECTIVE

Numerous television stations, websites and social media channels are dedicated to reporting investment news 24 hours a day, seven days a week. What’s more, there are almost too many financial publications to count. While the media provides a valuable service, they typically offer a very short-term outlook. To put your own investment plan in a longer-term perspective and bolster your confidence, you may want to look at how different types of portfolios have performed over time.

### Hypothetical Performance of Asset Allocation Portfolios

12/31/96–12/31/16<sup>3</sup>

	Growth of a \$10,000 Investment	Average Annual Total Return	1-YEAR CUMULATIVE RETURNS (%)	
			Best	Worst
100% Stocks	\$38,931	7.03%	38.37	-37.95
80% Stocks   20% Bonds	\$38,922	7.03%	31.51	-29.31
60% Stocks   40% Bonds	\$37,569	6.84%	24.66	-20.67
40% Stocks   40% Bonds   20% Cash	\$31,137	5.86%	17.21	-12.66
20% Stocks   60% Bonds   20% Cash	\$28,279	5.35%	10.70	-4.02

*The hypothetical asset allocation portfolios shown above are for illustrative purposes only. They do not represent the past or future portfolio composition or performance of any Franklin Templeton fund and are not intended as investment advice. We suggest working with your financial adviser to see which allocation opportunities may be right for you.*

**To view literature**, please visit [franklintempleton.com.au](http://franklintempleton.com.au), contact your financial adviser or call Franklin Templeton Investments at 1800 673-776.

## 5 | BELIEVE YOUR BELIEFS AND DOUBT YOUR DOUBTS

There are no real secrets to managing volatility. Most investors already know that the best way to navigate a choppy market is to have a good long-term plan and a well-diversified portfolio. But sticking to these fundamental beliefs is sometimes easier said than done. When put to the test, you sometimes begin doubting your beliefs and believing your doubts, which can lead to short-term moves that divert you from your long-term goals.

**To keep a balanced perspective, we recommend that you contact your financial adviser before making any changes to your portfolio.**

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## A Few Words about Asset Allocation

While asset allocation can be a valuable tool to help reduce volatility, all investments involve risk, including possible loss of principal. Typically, the more aggressive the investment or the greater the potential return, the more risk involved. Generally, investors should be comfortable with some fluctuation in the value of their investments, especially over the short term. Diversification does not guarantee a profit or protect against loss. A fund's specific risks are described in greater detail in the prospectus.

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