LINEWEAVER financial group

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Market Volatility as The New Norm

We are in a period of market volatility and that is not going to change anytime soon. Be prepared.

Following the stock market's rough run in the aftermath of the debt ceiling drama last summer, we warned our clients to buckle up for another a roller coaster ride. These days, the stock market is much more volatile than it used to be - as measured by one barometer called the Volatility Index (VIX). The VIX, an index calculated from the prices investors are willing to pay for options tied to the Standard & Poor's 500 Index, tends to rise as stocks fall. Thus it is commonly referred to as the "fear gauge." In the 1990s the VIX normally registered around 9 or 10. The VIX in June spiked to 25, settled back in the Fall around 15, and has since registered again in the 20s.

Many felt that after the 2012 Presidential election the market would be less volatile; don't hold your breath! The election erased some uncertainty, and that is good news, but the crystal ball will remain very cloudy for the foreseeable because the economy is facing bigger headwinds: Europe's unresolved debt crisis, the slowdown in China and the stalling U.S. economic recovery. The market will continue to worry about the aftermath of the fiscal cliff, and the lack of consensus coming out of Washington necessary to resolve the country's debt problems.

The recent and ongoing turbulence in the market has investors questioning how they should strategize for the long term. Rather than reacting emotionally and panicking by running for the door, a better approach might be to think through what one's risk appetite might be and adjust your asset allocation gradually, probably to something more conservative, but not giving up any chance for some upside potential.

Now is a great time to revisit the Rule of 100, and make sure you are not assuming too much risk with your retirement assets. We have long preached that you need to follow the rule of 100. Take 100 and subtract your age, and the resulting number is the maximum percentage of your assets that should be at risk. I'm sure there are plenty of people that have heard us talk about this rule and are now wishing they had followed that good advice over the past couple of years.

In volatile times like these a simple buy and hold strategy might not be the best course of action. For investors such a stop-go economy and extended period of market volatility means that the so-called buy-and-hold strategy won't be much help. What is necessary is to adjust asset allocation to changing market conditions; have a dynamic instead of static asset allocation. Put another way, reduce exposure to the stock market and get more defensive in recessions, and increase equity exposure in expanding economies, and do so in a disciplined approach to remove emotions from allocation changes. This type of approach is typically implemented with professional advice. Using a disciplined approach like this requires ongoing adjustments to the asset allocation, and then deciding which equity sectors will perform best moving forward. Timing doesn't have to be exact; you are just trying to capture the general trend, and doing so can improve your returns. They are making the quarterly asset allocation and sector changes to improve performance. The more you make the more they make and vice versa.

Lineweaver Financial Group is having an educational program discussing the economy, the market and *Market Volatility As The New Norm* on January 15 and 17th. If you would like at attend, give Lineweaver Financial Group a call at 216.520.1711 to reserve your seat. If you cannot attend the program, but want to make sure you are prepared for this period of anticipated market volatility call LFG to schedule a review.

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