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MANAGEMENT GROUP

NavigatorInsights

Time to Ratchet Up Risk Management?

Volatility Is Back in Vogue

March 9th marked the sixth anniversary of the current bull market. Since the average bull market lasts only 3.8 years, we think it may be time to take a look at client portfolios and decide whether it makes sense to incorporate additional safeguards.

Our last *Navigator Insights* discussed taking a personalized approach to risk management. Just as the markets go up and down, investors' appetite for risk goes up and down. A personalized risk management approach will adjust and adapt to the changing markets based upon the desired outcome or goal of the client. There are a variety of ways to manage volatility, and each has its pros and cons.

Pros & Cons of Risk Reduction Tools

TIME can manage volatility, since over long periods of time, the effects of market spikes are smoothed out. Using a bucket approach to asset management can help spread a client's risk out throughout their investing lifecycle. But not every investor has the luxury of a long time horizon nor do they always have the emotional fortitude to just "stick it out" in a bear market.

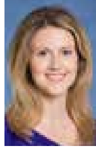
BONDS have traditionally been used as a volatility mitigation tool to help provide an income stream and to lower the overall risk of the portfolio. However, the threat of rising interest rates may mean higher volatility in the bond markets. Investors should not expect to receive the same benefits that they received over the past 30 years of a declining rate environment. Rates simply don't have any lower to go.

ALTERNATIVES can help incorporate non-correlated asset classes into a portfolio. But the alternative category is all-encompassing, containing many different types of investments. It's important to truly understand the individual characteristics of the alternative investments you're incorporating to know how they will complement the overall portfolio and react in different market scenarios.

HEDGING vehicles, such as products that track the VIX Index, can provide a way to access areas of the market that are negatively correlated to the equity markets. Hedging strategies are used to protect investors from severe market declines. However, in an up market or sideways market, they may create drag on the portfolio. It's important to use them correctly and set the proper expectations with investors.

We believe one or all of the above vehicles can provide risk management for an investor.

Considering the full spectrum of risk management tools available when building asset allocations can help ensure that clients make the right decisions about their money regardless of market conditions.



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