What to Do When Markets Are Volatile

If market volatility has you second guessing your investment strategy or asking whether you should stay in the market, here are some tips on steps you should—and shouldn't—take.

1. Diversify your portfolio

To help manage risk, consider diversifying your portfolio with different types of investments. Broadly speaking, investments such as stocks and real assets like agriculture and real estate respond well to growth—growing corporate profits, growing incomes around the world or in some cases overall population growth. Other investments, such as bonds, can help provide some stability to your portfolio when markets are volatile or when you need to meet income needs in retirement. If you find it challenging to choose your own investments, consider a managed account. An investment professional will customize your investment mix to your needs, and help ensure that you're adequately diversified.

2. Rebalance your investments

You should review your investment portfolio and rebalance it periodically—adjusting it based on prolonged market moves and your stage in life. For example, if we're in a period when stocks have fallen for a significant period of time while bonds have risen, purchasing some additional stocks may help return your portfolio to its original allocation. As you move closer to retirement, or as you live in retirement, increasing the proportion of your portfolio in bonds and certain guaranteed assets may help stabilize your investment income. A simple way to ensure that your investments are properly balanced based on your life stage is to invest in a target date fund. These accounts automatically adjust your holdings appropriately (generally, into more conservative investments) as you age.

3. Maintain focus on your long-term financial goals

Don't let periods of high volatility make you lose sight of your long-term financial goals or the investment opportunities that may become available in times like these. Having a well-thought-out financial plan and investment strategy can help keep you on course when the markets are most volatile. Your financial plan should be designed to provide a clear roadmap for achieving a range of needs and goals—from paying monthly rent or mortgage and saving for college, to investing for retirement—during both up and down markets. A TIAA-CREF financial advisor can help with crafting your financial plan and investment strategy.

4. Re-evaluate your emergency fund

From time to time, you should revisit the amount of cash you have on hand for emergency situations. Having enough saved in an emergency fund, especially when markets are volatile, can help ensure you won't have to sell your long-term investments during market downswings.

Moves to avoid when markets are volatile

It can be tempting to want to take action if the markets become rocky. Still, not all moves are the right ones. Here are some actions to avoid.

1. Rushing to sell investments

When the going gets tough, you shouldn't necessarily head for the exit door. If you feel that market shifts are jeopardizing your financial goals, you may want to review your current investment mix relative to your objectives. However, avoid making investment decisions based on your emotions, such as selling if the market declines suddenly. For your long-term investment strategy to work, you must stick with it.

2. Chasing investment performance

Over time, each asset class will take its turn as a leader or laggard. However, impulsively selling an underperforming investment can further lock in your losses. Since the market's future direction is impossible to predict, staying the course with a diversified portfolio that is able to withstand inevitable short-term rises and dips in the market may help you reach your investment goals.

3. Timing the market

In order to be a successful market timer, you need to get it right twice—once when you sell and again when you buy. This is extremely difficult even for seasoned investment professionals. Sticking with an existing investment plan (or starting a new one to get back into the market) allows for disciplined buying in times when it's toughest—and ultimately allows you to buy when prices are low.

Your TIAA-CREF advisor can help evaluate whether your portfolio is built to weather market "storms"—or if it needs some additional shoring up to continue meeting both your personal risk tolerance and your long-term financial goals.