Key Wealth

Key Wealth Institute

When the Market Is Volatile, Why Is it Important to Have a Financial Plan?

Markets will always be unpredictable. Market downturns are painful but are a naturally occurring component of equity-market investing. A well-designed financial plan considers market volatility and can help you brave the ever-changing ebbs and flows of the market. If you do not have a plan yet and are just focusing on investing advice, you are missing out on the sense of security that a quality financial plan can provide.

Here are five recommendations for dealing with uncertain financial times.

Have a dynamic plan

A good financial plan is dynamic. It is a living, breathing plan. It changes when there are major events during your life just as much as when there are market changes. Make sure your plan is updated as your goals shift.

Keep your emotions in check

Something else that could potentially derail your best-laid plans: emotions. Emotions can distract from goals by driving you to deviate from your plan. Instead of letting market gyrations dictate your actions, always look to your plan for guidance. A good plan that is carefully laid out in partnership with your advisor should walk you through various simulations so you make rational decisions.

Re-evaluate goals

During times of uncertainty, you can benefit from re-evaluating your short- and long-term goals, while sticking with your financial plan. Having digital access to your financial plan that allows you to decrease (or increase) goals with the ability to see the real-time impact is extremely valuable and allows you to participate in designing your financial plan.

Test the plan with a range of market situations

We can’t predict the future of the market returns. But, you can test your plan across a wide range of market situations and returns. Using simulations such as Monte Carlo analysis, which examine all the “what if” scenarios of your plan, you can see statistical results of the likelihood or probability that a financial plan will be successful. Monte Carlo is most useful as a “big picture” illustration of the probability of success of a plan.

Stress test a financial plan

It’s also important to be prepared for the uncertainties in the real world and see how a financial plan may succeed even when things go bad for a while. Stress testing is a powerful way to illustrate how variability can affect your financial plan. Stress testing a plan shows several different possible outcomes, which helps reinforce the underlying uncertainties in projecting future results.

If your financial plan has the ability to model bad timing (e.g., a downturn in the market at a bad time, such as two years before retirement) or bear market tests (how the plan would be affected by a severe bear market in bonds or stocks), this can be helpful in illustrating the potential impact on the plan. Knowing this ahead of an actual occurrence can be comforting, so that when these times do occur, there is less anxiety and potential for irrational decision-making that could negatively impact your overall plan.

Key takeaways

During times of volatility or amid a bear market, it is important to remember to stay focused on the big picture and on achieving your financial goals. This will allow you to endure the inevitable bad times with confidence. Keep your plan on track, especially in times of market volatility.

For more information, please contact your advisor.

The Key Wealth Institute is a team of highly experienced professionals representing various disciplines within wealth management who are dedicated to delivering timely insights and practical advice. From strategies designed to better manage your wealth, to guidance to help you better understand the world impacting your wealth, Key Wealth Institute provides proactive insights needed to navigate your financial journey.

240617-2650057