COLUMBIA THREADNEEDLE INVESTMENTS

KEEP YOUR EYES ON THE PRIZE DURING TIMES OF MARKET VOLATILITY

Given the recent bout of extended market volatility brought on by the rapid spread of the COVID-19 virus, it is now more important than ever for investors to focus on their long-term financial goals. With the 24/7 news cycle bombarding everyone with virus updates, and the number of infections multiplying at an alarming rate, it is becoming increasingly hard not to panic. But keeping a clear, rational frame of mind is paramount to battling the spread of the virus, and for many, it is also critical to safeguarding their hard-won investments and securing their retirement assets.

You can always visit our website blog for timely updates on the virus-related volatility. Also, here is a list of frequently asked questions to help keep you focused on your long-term financial goals.

Q: When managing my investments during times of market volatility, what should I consider?

Some investors instinctively want to pull out of the market or sell underperforming investments as soon as they see volatility on the horizon. But taking yourself out of the game could mean losing out on potential opportunities, putting your savings at risk.

Be patient. Stay focused on your long-term financial goals, like maintaining your standard of living and retiring comfortably. Work with your financial advisor to assess if your portfolio is diversified and your investments are rebalanced regularly based on current market conditions and your short- and long-term financial goals.

Whatever you do, don't try to time the market. Even experts can't predict which asset class is going to lead or lag at any given time. Instead of guessing which investments are going to soar in times of volatility, talk to your financial advisor about your portfolio to find out if there are opportunities to incorporate products whose performance is unrelated to your existing holdings. Diversifying your portfolio can help you weather the ups and downs of the market with confidence and stay the course long term. And a diversified portfolio can help limit drawdown in a volatile equity market. You may lose less when you have a diversified portfolio as opposed to one with a more concentrated equity exposure. The chart below represents six periods of increased volatility and the losses incurred for three distinct portfolio compositions. In each instance, the diversified portfolio fared much better than portfolios composed of domestic or global equities alone.

Q: How is market volatility measured?

Market volatility is defined as share price fluctuation. It is an inevitable component of the stock market, since prices always go up and down. Higher volatility is associated with securities that change price dramatically over the short term vs. those whose price changes occur at a steadier rate over time.

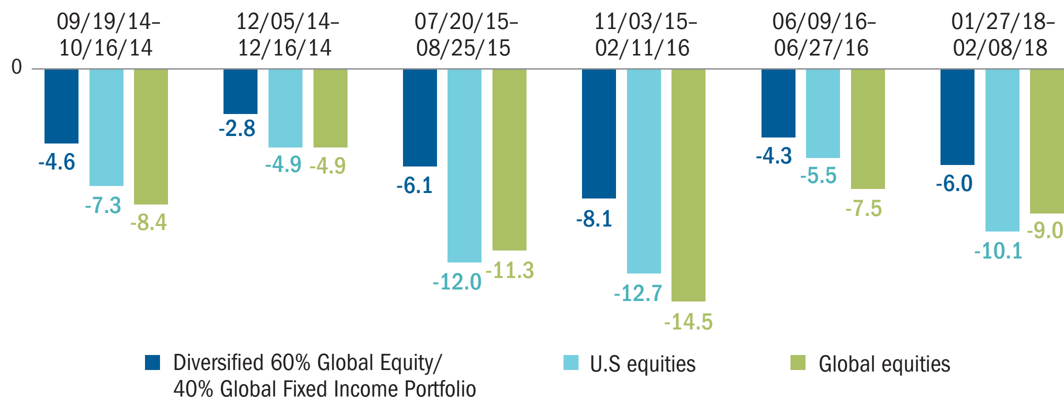
Beta is a measure of a stock or mutual fund's volatility relative to the market. The market has an assigned beta of 1.0. Individual stocks and mutual funds are assigned beta scores based on how much they deviate from the market. A stock or fund that swings more than the market has a beta above 1.0, while one that moves less than the market would score less than 1.0. Stocks with high beta scores are perceived to be riskier but also offer potentially higher returns; low beta scores carry less risk and generally lower returns.

The CBOE Volatility Index measures overall market expectations of near-term volatility. Created by the Chicago Board Options Exchange, the volatility index or VIX, as it is familiarly known, represents the market's forward-looking assessment of market volatility.

A DIVERSIFIED PORTFOLIO CAN LIMIT DRAWDOWN IN A VOLATILE EQUITY MARKET

Cumulative returns for recent equity drawdowns (%)

You may lose less when you have a diversified portfolio versus a more concentrated equity exposure.



Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

Diversification and/or asset allocation does not assure a profit or protect against loss.

Source: Columbia Management Investment Advisers, LLC. Periods of drawdown were calculated by using the largest peak to trough losses on equities, measured by the S&P 500 Index, since 01/01/14 and comparing the average performance over each of those periods. Past performance does not guarantee future results. U.S. equities are represented by the S&P 500 Index, which tracks the stocks of 500 large-cap U.S. companies. Global equities are represented by the MSCI All Country World Index, which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The 60% equity/40% bond diversified portfolio is represented by the MSCI ACWI and the Bloomberg Barclays Global Aggregate Bond Index, which is a measure of global investment-grade debt from 24 local currency markets and includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

It is important to remember that volatility is often a direct result of emotional reactions. Responding emotionally often comes at a high price, and financial decisions made in the heat of the moment may take years to recover from. The most prudent course of action is to contact your financial advisor, someone who is trained to take the emotion out of investing.

Q: What are some of the causes of volatility in financial markets?

Volatility in the financial markets can come from a number of sources. Events or financial circumstances around the globe that have even the potential to cause swings in investor sentiment — in either direction — can cause volatility in the financial markets. Causes of market volatility include:

Geopolitical events like terrorism, major elections, natural disasters and global health crises: Uncertainty may lead to market volatility as countries deal with the effect of these events on national budgets, migrant housing, security, jobs, international relations and more.

Unexpected changes in central bank policy around the globe: Financial markets are highly susceptible to changes in central bank policy. When central banks reduce monetary policy, it is referred to as tapering monetary policy, and when markets react with volatility, it is referred to as a taper tantrum.

Q: How can market volatility create opportunities?

We believe market volatility can create significant opportunities and, in fact, these periods may be some of the very best times to consider opportunities to invest. Although higher volatility means higher risk, it also provides active managers with opportunities to pursue higher returns.

However, consistency is very important when choosing active strategies. A consistently applied investment philosophy to identify and exploit the mispriced stocks that often result from periods of market volatility can produce repeatable investment outcomes over time. Investing with active managers with dependable styles can help you build portfolios that seek reliable investment performance regardless of market turbulence.

While a volatile market can be unsettling and seemingly detrimental to portfolio valuations, there are always things you can do to mitigate the effects of market volatility and potentially even turn it to your advantage. The short list of do's and don'ts includes:

DO

Be patient

Focus on long-term goals

Consider a diversified portfolio

Understand your risk tolerance

Consult your financial advisor periodically to make sure you are on track

DON'T

Panic

Attempt to time the market

Be distracted or lose focus of your long-term financial goals

Investing involves risk, including the risk of loss of principal.

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* In U.S. dollars as of December 31, 2019. Source: Ameriprise Q4 Earnings Release. Contact us for more current data.

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