COLUMBIA THREADNEEDLE INVESTMENTS

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EASE THE IMPACT OF VOLATILE MARKETS

Q&A

- How should I manage my investments during times of market volatility?
- Why is diversification essential to my investment success, especially in a volatile market?
- How is market volatility measured?
- What are some of the causes of volatility in financial markets?
- How can market volatility create opportunities?

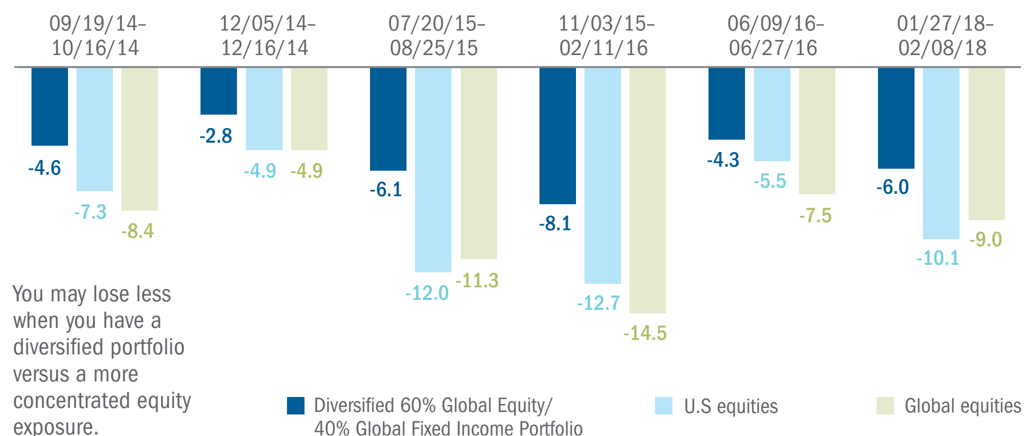
Q: How should I manage my investments during times of market volatility?

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 ensure that 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.

A diversified portfolio can limit drawdown in a volatile equity market



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 ensure 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.

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The chart below depicts annual performance by asset class over an eight-year span. Each asset class is represented by a specific color, with the best performing asset classes on top and the worst on the bottom. If you choose any color/asset class in the first column and follow the same color in the columns to the right, you can see how volatile the performance of the asset class has been over this eight-year period. Repeat the exercise for any of the asset classes and you'll soon understand the difficulty in predicting who the winners and losers will be.

Asset class total return performance chart (%)

2010	2012	2014	2016	2018
Small growth **29.09**	Mid value **18.51**	Long-term Treasuries **24.43**	Small value **31.74**	Municipals **1.04**
Mid growth **26.38**	Emerging markets **18.22**	Mid value **14.75**	Mid value **20.00**	Mortgages **1.01**
Mid value **24.75**	Small value **18.05**	Large value **13.45**	High yield **17.49**	Large growth **1.51**
Small value **24.50**	Large value **17.51**	Large growth **13.05**	Large value **17.34**	Long-term Treasuries **1.63**
Emerging markets **18.88**	Foreign developed **17.32**	Mid growth **11.90**	Small growth **11.32**	Corporates **2.25**
Large growth **16.71**	Mid growth **15.81**	Municipals **9.78**	Emerging markets **11.19**	High yield **2.26**
Large value **15.51**	High yield **15.58**	Diversified portfolio **7.81**	Diversified portfolio **9.86**	Foreign corporates **3.48**
High yield **15.19**	Large growth **15.26**	Corporates **7.51**	Mid growth **7.33**	Mid growth **4.75**
Diversified portfolio **15.10**	Small growth **14.59**	Mortgages **6.12**	Large growth **7.08**	Diversified portfolio **6.07**
Corporates **9.52**	Diversified portfolio **13.27**	Small growth **5.60**	Corporates **5.96**	Large value **8.27**
Long-term Treasuries **9.35**	Foreign corporates **11.06**	Small value **4.22**	Foreign corporates **4.27**	Small growth **9.31**
Foreign developed **7.75**	Corporates **10.37**	Foreign corporates **3.15**	Mortgages **1.59**	Mid value **12.29**
Foreign corporates **6.01**	Municipals **7.26**	High yield **2.50**	Long-term Treasuries **1.23**	Small value **12.86**
Mortgages **5.50**	Long-term Treasuries **3.67**	Emerging markets **-2.19**	Foreign developed **1.00**	Foreign developed **13.79**
Municipals **2.25**	Mortgages **2.60**	Foreign developed **-4.90**	Municipals **0.44**	Emerging markets **14.58**

Source: FactSet as of 12/31/18
Past performance does not guarantee future results.

Q: Why is diversification essential to my investment success, especially in a volatile market?

Volatility comes with the territory for long-term investors. Cumulative return is not just about achieving high returns when markets are going up; it's also about minimizing losses during weak markets. Developing a deeper understanding of the various risks your portfolio is subject to can help you balance these risks.

Diversification is critical to achieving that balance. We believe that most portfolios could be more effectively diversified either by introducing holdings with performance profiles unrelated to existing holdings or by rebalancing existing holdings with an eye toward risk allocation. Distributing risk more evenly can produce a more pronounced diversification benefit and improve portfolio efficiency.

Diversification does not assure a profit or protect against loss.

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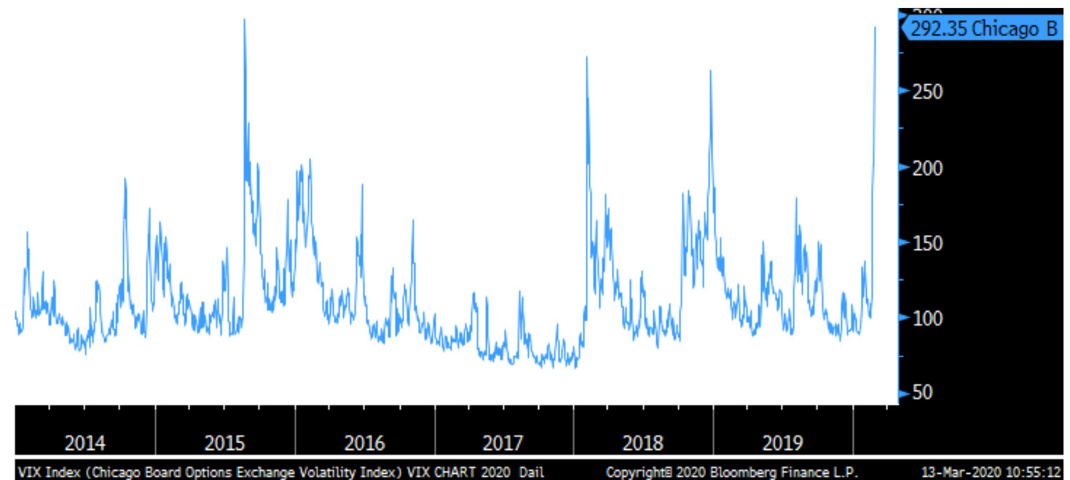
Q: How is market volatility measured?

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. As the chart below indicates, market volatility varies over time.

Volatility indexed (Rebalanced to 100 on 01/01/2014)



Sources: Bloomberg, Columbia Management Investment Advisers, LLC, 03/20

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

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.

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- Be patient
- Remain invested
- Maintain a diversified portfolio
- Understand risk
- Talk with your advisor

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 best and most prudent course of action is to contact your financial advisor, someone who is trained to take the emotion out of investing.

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 invest. Although higher volatility means higher risk, it also provides active managers with opportunities to produce 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 with 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 affects of market volatility and potentially even turn it to your advantage. The short list of dos and don'ts includes:

DO

- Be patient
- Remain invested
- Maintain 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

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The **Standard & Poor's 500 Index** (S&P 500 Index) is an unmanaged list of common stocks which includes 500 large companies.

The **Chicago Board Options Exchange (CBOE) Volatility Index**, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking, is calculated from both calls and puts, and is a widely used measure of market risk, often referred to as the "investor fear gauge."

It is not possible to invest directly in an index.

* In U.S. dollars as of December 31, 2019. Source: Ameriprise Q3 Earnings Release. Contact us for more current data.

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