# VOLATILITY IS NOT RISK

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As investors, we've witnessed a lot of volatility lately. To that I might say 'what else is new?' Since when has the stock market NOT been volatile?

This is referred to as the 'equity risk premium'. Holding cash comes with no volatility AND pays you nothing. Equities come with short-term volatility, and have paid patient investors a lot, over time. The short-term volatility that comes part-and-parcel with being an equity investor is simply "the price" we must pay for the better long term returns that stocks have always provided, in due course.

## In order to reach your goals, you must own equities

I believe that the vast majority of investors who are saving for their retirement are not likely to reach their goals without owing stocks. I also believe that most retirees cannot reach their retirement income goals - AND maintain their purchasing power throughout their retirement - without owning equities. Therefore, all investors, both pre-retirees AND retirees, must learn to live with volatility.

Here's the good news: not only is volatility not "THE" risk; I would suggest that short-term market volatility is not even "A" risk. Allow me to explain…

While the short-term ebbs and flows of stock prices are completely beyond your or anyone else's control – how you react to market volatility IS of course, entirely within your control. In a nutshell, novice investors react in a way that is counter-intuitive, completely nonsensical, and self-sabotaging. On the other hand, savvy and successful long-term investors recognize any big market drop for precisely what it is; a temporary opportunity to buy great businesses at bargain basement prices.

> ***"Pop quiz: Name the giant store where customers scoff at whatever goes on sale, but flock to buy whatever costs the most? It isn't a supermarket. It's the stock market."***
>
> \- Jason Zweig

## Volatility is not risk. In fact, volatility equals opportunity…

Over the course of my now close to 30 years of investment industry experience, I have long since come to a glaringly obvious conclusion: unsuccessful investors see volatility as risk while successful investors see volatility as opportunity. Among the countless investors I've either met, spoken with, or advised over the past number of decades – I can divide them all into one of two camps; those who 'get it' and those who don't.

***"Be fearful when others are greedy, and be greedy when others are fearful."***

- Warren Buffett

### What does the 'smart money' do during a bull market?

When the stock market has gone UP a lot in the recent past (i.e. during a 'bull' market), equities are expensive and therefor the near-term downside risk is much higher – not lower. Ironically, this is when the novice investor is buying stocks with giddy enthusiasm? Right when future return expectations are lower and the near-term downside risk is much higher!

When stocks are already priced at a premium, we recognize these times of euphoria as an opportunity to trim your equity exposure, take some money off the table, and raise some cash.

***"A large advance in the stock market is basically a sign for caution and not a reason for confidence."***

- Benjamin Graham

### What does the 'smart money' do during a bear market?

When the stock market has gone DOWN a lot in the recent past, like it has lately (i.e. during a 'bear' market), equities are attractively priced; the future upside potential is much better; AND the risk of owning stocks has gone down – not up. Once again, this is exactly when the novice is selling equities (in sheer panic) and going into the false 'safety' of cash? They're selling stocks right at a time when future return expectations are much higher and the risk of owning them is generally much lower!

When stocks are already priced at a discount the smart money recognizes these times of investor angst as an opportunity to add equity exposure, buying great businesses while they are temporarily on sale. We can do this only because we raised cash when prices were much higher.

***"Bear markets are where the real money is made – not lost."***

- Warren Buffett

Important to point out: this is NOT market timing. This is just plain old common sense. We are simply adhering to the oldest and most logical adage on Wall Street: "buy low and sell high"!

Finally, I would ask any bearish/pessimistic investor the following: 'Are you – and most important, your portfolio - prepared for more favorable conditions? Of course, the market can go down further from current levels. But how will your portfolio perform when the market inevitably rebounds, as it always has in the past?'

Now is the time to position for that far more optimistic reality.

***"The Intelligent Investor is a realist who sells to optimists and buys from pessimists."***

- Warren Buffett

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