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# Where Should You Turn for Advice When Volatility Spikes?

I remember reading a Sun Life Financial survey that found that most people tend to turn to their friends and family for financial advice before consulting advisors. I wonder if that holds true in volatile markets like we seeing this month. Even as robo-advisors (automated investment platforms) establish a foothold in the industry and self-help financial books continue to proliferate on bookstore shelves, I'd argue that today, more than ever, working with a trusted advisor delivers exceptional and essential value.

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As I think about it, the recent spike in market volatility represents the first real test robo-advisers have faced. That's because an algorithm may be able to set an acceptable asset allocation, but it can't counsel investors when markets don't move their way.

Today, there's no doubt that investors have questions. In fact, as the Dow declined this month, do-it-yourselfers sought guidance. The Investment News reported that Vanguard's Personal Advisor Services unit, which offers investors who use automated investing the opportunity to speak to a live advisor by phone, had experienced 9% higher requests for client consultations. And, describing how robo-advisors took to Twitter to calm clients, the article notes, "When client Kartika Ruchandani, a software engineer according to LinkedIn, tweeted that her portfolio looked hopeless, the robo-advisor Wealthfront replied saying, 'Although it can be difficult, it's important to keep a long-term view.'"

Yes, maintaining a long-term view is important, but who knows whether that message was delivered before the worried investor began making emotionally driven trades.

Without behavioral coaching from advisors, investors often make emotional decisions driven by fear or greed. This leads them to sell low when the media warns of ongoing volatility and to buy high just as everyone climbs onto the same bandwagon. The annual Dalbar Studies tracks the actual returns earned by investors by analyzing mutual fund purchases and redemptions throughout the year and reports annually on the differential between the returns of individual investors and the market. In 2014, the firm found the following:

- The average equity mutual fund investor underperformed the S&P 500 by a wide margin of 8.19%. The broader market return was more than double the average equity mutual fund investor's return (13.69% vs. 5.50%).

- The average fixed income mutual fund investor underperformed the Barclays Aggregate Bond Index by a margin of 4.81%. The broader bond market returned more than five times that of the average fixed income mutual fund investor (5.97% vs. 1.16%).

Importantly, in today's challenging market, investors must also realize that there are people who will try to profit from the stress caused by the market's volatility. Last week, for example, Stansberry Research scheduled an emergency briefing, "What to Do in Light of the Recent Stock Market Crash." The promotional material online read, "If you watch the markets, you're likely stressed. It's nearly impossible to turn away from the TV or stop watching a stock ticker on the web. The truth is that investing doesn't have to be this way." The solicitation goes on to say, "We'll talk about China, oil prices, and the American economy and figure out just how it will affect you. What's more, Dr. Eifrig will reveal the safest way to get investment income today–even when stocks are crashing as they have in recent days."

Adding your name to Stansberry Research's "Guest List" qualifies you to receive three "live investment recommendations." The tips are described this way: "According to Doc's research these are the best income investments on the market today–even when the stock market is crashing. These investments could provide you a safe, steady stream of income for years to come."

The marketing information fails to mention that the firm's founder, Frank Porter Stansberry, was ordered by the Securities and Exchange Commission to pay $1.5 million in restitution and civil penalties for disseminating false stock information and defrauding public investors through a financial newsletter, according to the Baltimore Sun.

Contrary to the promises of robo-advisors and other financial "experts," there are no one-size-fits-all solutions for setting an asset allocation or responding to volatility. And, notably, even investors who have properly allocated, diversified portfolios can be upset about market volatility. After all, it underscores that the market, like life, is out of our direct control. We have to remember, however, that without this uncertainty–which can intensify at times–there would be no way to profit in the market. That is, if all the market's risk was stripped away, there would be no potential to earn a reward.

In times like this, when heightened volatility sparks concern, we advise our clients to focus on what they can control and what they are certain of–their own individual goals and timelines. Those are the factors that should guide any portfolio changes.

If you have questions about the recent stock market movement or your portfolio, please schedule a phone call or a meeting with me to discuss your questions or concerns.

***Stay Diversified, Stay the Course!***

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