# Game plan for managing volatility post Brexit

On June 23, after nearly three years of increasingly contentious debate, the British public voted to withdraw from the European Union (EU).

While the U.K.'s Independence Party celebrated what it termed "Britain's new Independence Day," the reaction from the financial markets immediately following the vote was less than celebratory. During the trading day after the vote, the pound plunged against the dollar by nearly 10% to $1.32, a 30-year low. In a flight to safety, U.S. interest rates plummeted, the 10-year Treasury note yield falling from 1.74% the day before the vote to 1.57% the day after and then 1.45% on June 27. The British 10-year bond yield fell below 1% for the first time since records began in 1729. Global stock markets sold off, losing between 5% and 10% of their values over the two days following the vote.

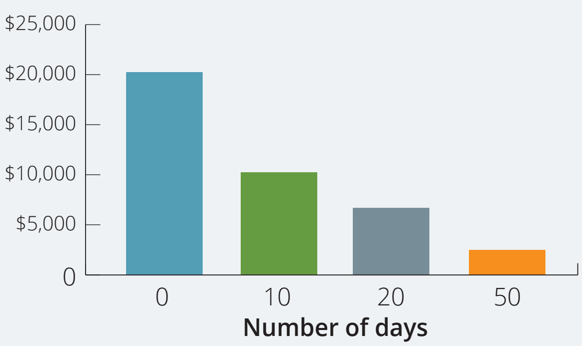
As policymakers strive to engineer an orderly Brexit, we expect financial market volatility to be higher than it has been in recent years. So what is a retirement investor to do?

## 1. Keep calm and carry on!

Don't let headlines drive your investment strategy. Resist the knee-jerk reaction to sell investments or time this market. Back in March 2009, the Standard & Poor's 500® Index (S&P 500® Index) was down 54%, but the market rebounded and delivered a historic bull rally. Retirement plans are inherently, long-term investments. Short term market volatility shouldn't necessitate a change to long-term saving or investing strategies. **Retirement strategies should be based on an investor's personal situation, goals, risk tolerance and time horizon until retirement.** It is natural to have swings in market pricing, both up and down. And, keep in mind, volatility works in both directions and it is upside volatility that generates strong returns. This is why investors can ill-afford to exit the markets after a decline. **The largest upward movements in stock prices often occur off the bottom of market declines.** The following chart illustrates the danger of missing the market's best days.

### Missing the market's best days

(Initial investment of $10,000)




### A difference that matters

Staying invested over the past 10 years would have earned you **$10,019** more than if you had missed the market's 10 best days.

| BEST DAYS MISSED | VALUE OF $10K INVESTMENT |
|---|---|
| 0 | $20,242 |
| 10 | $10,222 |
| 20 | $6,674 |
| 50 | $2,484 |

This chart shows an initial investment of $10,000 over a 10-year period using historical data from the S&P 500® Index as of January 2016.
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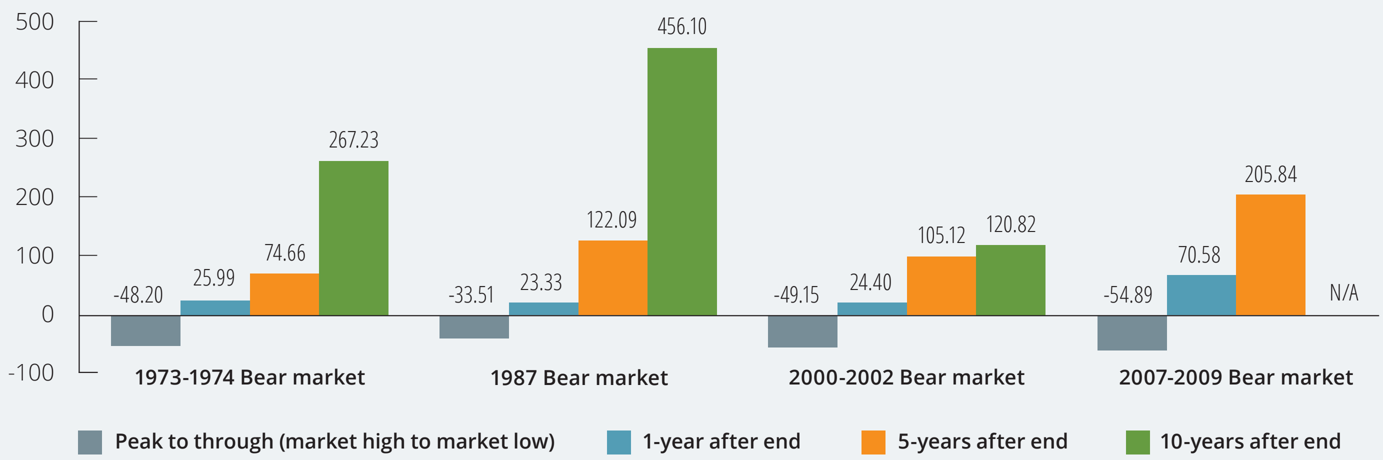
## The following chart illustrates stock market recoveries from the trough of each of the last four bear markets.

### Cumulative total returns of the S&P 500 (%)

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Source: Standard & Poor's, a division of the McGraw-Hill Companies, Inc., GPW (Legg Mason international system) and Morningstar Direct.

## 2. Control what you can control

**Your actions, not the markets, have the greatest impact on whether or not you reach your retirement goals.** Maximize your contributions — that has the largest single effect on your retirement outcome. Now that the market has sold-off, your periodic contributions buy more shares for the same dollar amount invested. Another thing you can control is your career. In the earlier stages of your retirement life cycle, human capital, the amount you earn and can thus contribute, is the primary driver of retirement success. Continue to hone your job skills, maximize your earnings and increase your contributions whenever possible. Lastly, control your emotions. **Avoid behavior that is hazardous to your wealth. Selling investments after they have experienced significant declines can be the worst mistake most investors make next to not contributing enough to their retirement plan.**

## 3. Consider utilizing professional management

Professionally managed retirement asset allocation solutions can help you navigate the turbulence and keep you from making poor decisions during times of market volatility. Target date and risk-based asset allocation funds provide a well diversified solution, which is focused on the longer-term goal of retirement.

### A Managed Account may:

- Help you better reach your retirement goals.
- Allow for the inclusion of non-core assets, such as real estate, commodities and alternative investments, which can perform well when other core assets are declining.
- **Provide a more tailored and holistic approach to the attainment of your retirement goals, taking into consideration outside accounts and helping you optimize your overall investment mix given your specific goals.**

**The following retirement investing adage helps to put recent market volatility into perspective:** Share prices were printed, as a courtesy, for investors who sold shares yesterday to buy a home, make a major purchase in retirement, etc. Your share price won't be printed for many years from now, when you reach your retirement goal.

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