Stock market downturns: Helping clients cope with volatility

Emphasize a historical perspective

Market cycles are part of investing, and it's normal for investors to be anxious if the market dips. But some measure of comfort can be taken from a historical perspective. Over time, the long-term trend of the market has been up.

The graph below illustrates the growth of $1 invested in the stock market at the beginning of 1970 and the four major market declines that have occurred subsequently, including the banking and credit crisis of 2008.

Investors tend to look at market downturns in isolation. When viewed in isolation on the lower tier graphs, each decline appears severe. However, showing your clients a historical perspective allows them to look at the big picture, where every crisis has been eclipsed by periods of growth.

Crisis and long-term performance

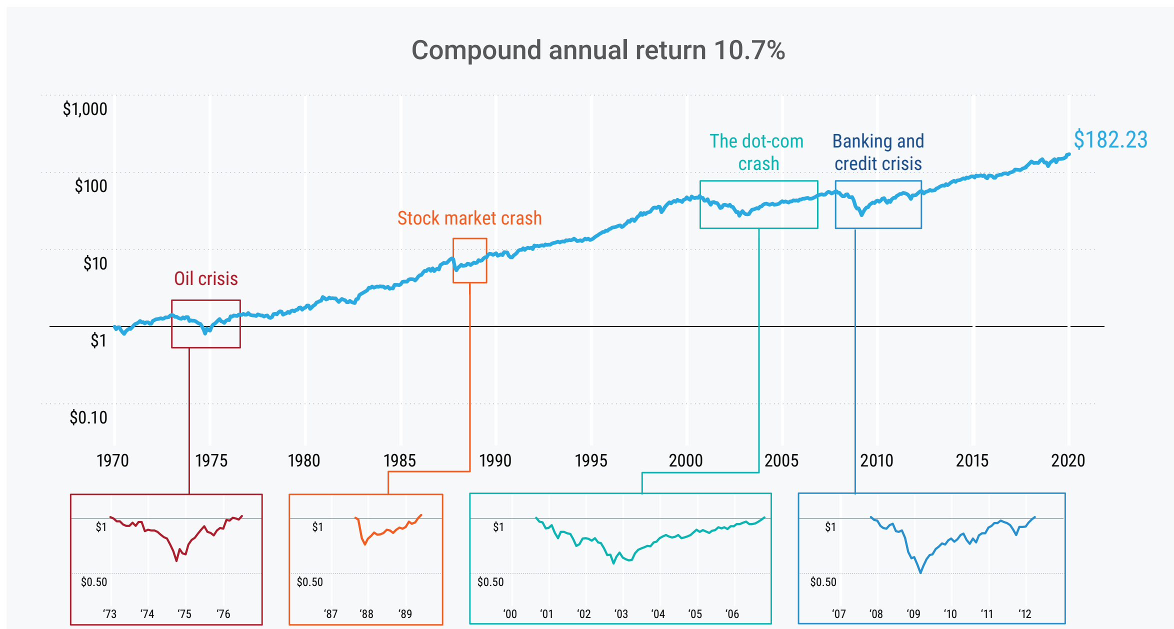
Market declines in historical context, January 1970 – December 2020

Source: Morningstar.com 12/31/2020

Returns and principal invested in stocks are not guaranteed.

About the data

Stocks are represented by the Ibbotson® Large Company Stock Index. An investment cannot be made directly in an index. Four market crises defined as a drop of 25% or more in the index. Return represented by the compound annual return. Past performance is no guarantee of future results.



Maintain regular contact with your clients

Despite knowing the history of market declines, many investors are still uncomfortable with volatility, especially when they are approaching or in retirement. This is when you can play a pivotal role in helping your clients avoid making rash decisions and keep them from straying from their long-term investment strategy. Offer a portfolio review, help them evaluate their income needs, determine if their portfolio is properly diversified, and assess if their asset allocation is in line with their risk tolerance.

Offer additional diversification during market volatility

You can also offer strategies to diversify your clients' portfolios beyond stocks, bonds and mutual funds to help reduce the effects of market volatility. Here are some examples of how you can offer investors access to professional risk management and income guarantees to help provide some protection from the effects of market volatility. Diversification does not assure a profit or protect against loss.

If your clients are concerned about retiring in a down market, consider a product that locks in their future income now with a Guaranteed Minimum Withdrawal Benefit. This allows them to benefit from potential market appreciation while providing a level of future income.

If your clients are looking for income, consider a product with a guaranteed income stream that can help insulate them from market fluctuations.

If your clients are already concerned about market volatility, consider a product with risk managed funds that provides a systematic method of reducing risk in periods of heightened volatility in order to help protect against prolonged market downturns.

Talk to your Lincoln representative about how a diversified, long-term investment strategy can help balance your client's portfolio against the impact of market volatility.

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LCN-3464590-022321
PDF 3/21 **Z02**
Order code: LFD-VOLA-FLI001

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