Buying into Volatility

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The stock market moves fast on ordinary days. But during extremes, stock market declines can feel like terminal velocity implosions. To any normal human being these events can be terrifying. However as intimidating as they can be, severe stock market volatility episodes can lead to some of the best opportunities to create wealth for long term investors who have the audacity to overcome their fear.

While many investors concentrate on trying to dissect the market movements themselves, an under-appreciated approach of buying during market volatility is to focus on your process.

Buying is never easy to most because it's tough to separate the emotions that money elicits from logical decision making. For many investors, declines often bring out primal, human instincts of "fight or flight." Since most don't consider the stock market something that can be fought, many run. Keeping one's head isn't always easy in these situations, but it is essential. No matter what your level of experience or skill, just by sticking to the small list of practices below can help you keep the discipline needed to be a successful buyer during stressful times.

Create a map:

- Improvisation or reacting in the moment is something a professional will never claim to be able to do consistently. Volatility, by definition, occurs due to confusion about the current environment. This chaos can and will trick your mind into inaction. Since declines can come out of nowhere, every investor should have at least one game plan written down to be able to reference during turbulence. Company wish lists, ticker symbols, ideal price levels, long term investment thesis', etc. The specifics don't matter as much as that it's information you feel is important. These details will help remind you why you want to make a disciplined purchase during an emotional moment. Write it down.

Look past the mess:

- When you put money into a declining market, you are buying that investment's future, not its past. Declines can last a long time and you will never buy at the exact bottom. You need to have the courage to hang in there in the interim. Identifying why you want the investment long term before you actually buy will give you the stomach to hold it for a while if you have to. From emerging technologies like 5G or solar energy to a long-term mega trend like internet commerce to just a basic understanding that things will eventually get better. You need to envision why you can be patient while all the confusion and volatility sorts itself out. That underlying confidence can make all the difference in the world not only for buying, but also for holding the investment going forward.

Less pain, more gain:

- It's okay to ease into a position little by little. Again, you'll never get in at the exact bottom. Periodic buying can help alleviate the stress of getting the timing of the purchase wrong. If the investment moves lower, further purchases help lower your average cost while giving you much more balanced control of your available cash balance. Yes, if the investment moves up before you have established your full position you can miss out on some upside. However, investment psychology has shown that the mental pain of a loss from buying too soon greatly exceeds the pleasure of a gain. Help avoid some of the distress by not being greedy.

Don't write checks you can't cash:

- As mentioned, declines can last longer than expected. Committing money to an investment that you may need to use in the near future can backfire and force you to sell at an inopportune time. At bare minimum, set a maximum dollar commitment and mentally prepare yourself to be without the money invested for a year from now. If it works out before then, that's great. But depending on your investment to be profitable in less time than that may eventually lead to mistakes and losses.

There are many other best practices any investor can use to help improve their decision making when buying investments under the duress of stock market downturns. But not everything works equally for all. Sharpening ***your*** process ***before*** the volatility starts can hold the key for successfully and consistently creating wealth long term for your future.