Money Talks By David Helscher
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For all that has gone on this year, we can rename 2020 as the year of the expanded lexicon. We can add derecho as a new term in addition to those added by the coronavirus, the political arena, and the economic swoon and subsequent recovery. In some ways it feels to me that we are cramming for a spelling bee at year end.

As the markets go up and down, it's easy to become too focused on the day-to-day returns. Instead, keep your eyes on your long-term investing goals and overall portfolio. Only you can decide how much risk you can handle, if you still have years to invest, don't overestimate the effect of short-term price fluctuations on your portfolio.

Diversifying your portfolio is one of the key tools for trying to manage market volatility. Because asset classes often perform differently under different market conditions, spreading your assets across a variety of investments, such as stock, bond, and cash alternatives has the potential to help reduce your overall risk. Ideally, a decline in one type of asset will be balanced out by a gain in another, though diversification can't eliminate the possibility of market loss. One way to diversify your portfolio is through asset allocation. This involves identifying the asset classes that are appropriate for you and allocating a certain percentage of your investment dollars to each class.

When the market goes down and losses pile up, the temptation is to pull out of the stock market altogether and look for less volatile investments. The modest returns that accompany low-risk investments may seem attractive when more risky investments are posting negative returns. When the market is going up, it is easy to watch your assets increase in value, but appreciation in value can result in unbalancing your portfolio, allocating a larger percentage of assets to a class that is inappropriate for you, or adding greater risk to your overall investment plan. Before you leap into a different investment strategy, make sure you're doing it for the right reasons. How you choose to invest your money should be consistent with your goals and time horizon.

While focusing too much on short-term gains or losses is unwise, so is ignoring your investments. You should check your portfolio at least once a year – more frequently if the market is particularly volatile or when there have been significant changes in your life. You may need to rebalance your portfolio to bring it back in line with your investment goals and risk tolerance. Rebalancing involves selling some investment in order to buy others. Investors should keep in mind that selling investments could result in a tax liability, if investing through a taxable account.

As the market recovers from a down cycle, elation quickly sets in. If the upswing lasts long enough, it's easy to believe that investing in the stock market is a sure thing. But, of course, it never is. As many investors have learned the hard way, becoming overly optimistic about investing during the good times can be as detrimental as worrying too much during the bad times. The right approach during all kinds of markets is to be realistic. Have a plan, stick with it, and strike a comfortable balance between risk and return. And keep an eye out for any forecasts of an economic derecho!