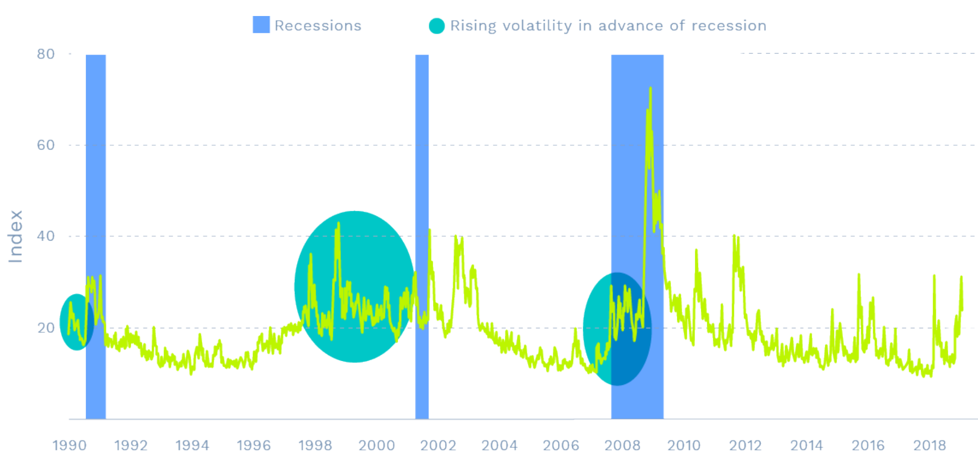
Adapting Your Portfolio to Potentially Increasing Late-Cycle Volatility

Visit cioninvestments.com for more information.

The extended expansion of the business cycle, with markets notching record gains over the last several years, has kept overall equity volatility generally low. However, Wall Street consensus is that we've finally entered the late stage, when volatility tends to increase.

Even with measures of volatility currently indicating stable markets in the near term it's a good idea to review your portfolio asset allocation in the context of investments that may help dampen portfolio volatility – so you can have shifts in asset allocation in place before it hits.

Before each of the last three recessions, volatility increased significantly in the late stage of the cycle.



Source: Federal Reserve Bank of St. Louis, as of 12/31/18. The Chicago Board Options Exchange Volatility Index (Cboe VIX) shows the market's expectation of 30-day volatility and is constructed using the implied volatilities of a wide range of S&P 500 Index options. It is not possible to invest directly in an index. Past performance does not guarantee future results.

INVESTING TO DAMPEN OVERALL VOLATILITY

Increasing a Cash Allocation

The first step in determining investments that may be able to cushion, or even take advantage of volatility is to look at your safest allocation. Cash is an investment – whether in a money market or a higher-yielding savings account. At times when volatility seems likely to rise it can make sense to increase your allocation to cash, both to lock-in gains and smooth returns, and to create some "dry powder" for future investment opportunities.

Adding Dividend Stocks

Another strategy that may lower overall volatility is to initiate or increase an allocation to dividend paying stocks. Dividend stocks that pay a steady income may reduce the impact of volatility on their share prices. While it is not possible to invest directly in an index, to gain an understanding of these types of stocks investors may want to look at the S&P 500® Dividend Aristocrats® Index, which measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The index is equally weighted and includes all eleven Global Industry Classification Sectors and both value- and growth-oriented companies.

Finding Income in Illiquidity

Seeking additional income that may help to offset the impact of market swings can lower overall portfolio volatility. Another source of income is assets that, because they are less liquid or illiquid, offer a yield premium to investors. These types of asset should only be considered if complete liquidity is not needed.

To learn more about Portfolio Adaptation to Volatility, please contact your financial professional.