Don't Panic, Diversify

The stock market recently hit correction territory which is defined as a decline of 10% or more from recent highs. Since 1950, the S&P 500 has seen a 10% correction approximately every 1.7 years and a decline of 15% or more roughly every 3 years. Bear markets—defined as a drop of 20% or more—happen about once every 6 years.
While market corrections are temporary, they can be stressful, especially for retirees or those nearing retirement. They can also ruin a retirement plan when retirees are forced to liquidate their portfolio during a drawdown to create income. This is where alternative investments can play a crucial role in reducing portfolio volatility. Alternative investments—such as private real estate, private credit, private equity, and structured notes—can help investors reduce exposure to stock market swings and create a more stable portfolio.
Unlike publicly traded real estate investment trusts (REITs), private real estate investments are less impacted by daily market fluctuations. High-quality commercial and residential properties generate consistent income and can appreciate over time, providing stability even when stocks decline.

With traditional bonds struggling during rising interest rate environments, private credit investments—such as direct lending to businesses—offer attractive returns with lower correlation to the stock market. These fixed-income alternatives provide steady cash flow while avoiding the volatility of public debt markets.
Additionally, investing in privately held companies (private equity) allows investors to avoid short-term market fluctuations and benefit from long-term value creation. Not only has private equity outperformed publicly traded stocks, but private equity funds are also not subject to daily price swings driven by investor sentiment.

Finally, structured notes, financial instruments that can be designed to offer downside protection while still allowing for market-linked returns, can be a valuable tool for reducing portfolio risk during corrections. By integrating alternative investments, investors can diversify beyond traditional stocks and bonds, helping to smooth portfolio performance and reduce emotional decision-making during market downturns. While market corrections are inevitable, a well-diversified portfolio with alternatives can help investors navigate them with greater confidence and stability.

Source: SmartAsset

Have you heard about our Vision Quest Process? Watch the video below to learn more!

We are committed to helping you achieve your financial goals. Please feel free to contact us with any questions, comments, or a more in-depth discussion.

Sincerely,
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