

Lifescapes

Three strategies for weathering market volatility

By: Colleen Marble 10/22/2025



Navigating the ups and downs of the market can be challenging. Here's what to keep in mind when markets are volatile.

Whether you've been investing for five years or 50, you know that few things are as constant as change in the markets — prices do not go up or down at a steady rate. Market volatility, which is any deviation (up or down) from the expected average return for any given asset class, simply comes with the territory. And it could be disconcerting when those price swings happen more frequently or reach greater extremes than usual.

"We are in an unusual time ... which is not so unusual," says Tracie McMillion, head of global asset allocation strategy at Wells Fargo Investment Institute. "There have always been things to worry about, from geopolitical events to inflation and natural disasters, including the pandemic. It often seems like this time must be different. But in each of those scenarios, liquidating a portfolio and putting it into cash or gold was the wrong thing to do. Of course, past performance is no guarantee of future results."

Here, McMillion shares why — and offers three strategies that can help investors weather market volatility.

Market volatility: What the numbers show

A [report by Wells Fargo Investment Institute](#) reviewed 30 years of data (1995 to 2025) and found that investors who allow their emotions to get the best of them could see lower long-term returns than those who ride out the market's ups and downs. "While missing the worst days [in the market] can potentially offer higher returns than a 'buy and hold' strategy, disentangling the best and worst days can be difficult," a key takeaway from the report says, "since historically they have often occurred in a very tight time frame — sometimes even on consecutive trading days."

Pulling out when the market is down could cause you to miss out on the benefits of what's known as upside volatility, when the market corrects or surges and delivers higher returns. During the period of analysis in the Wells Fargo report, the S&P 500 Index's 30-year annualized return was 8.4%. Missing even 10 of the best days in that time frame dropped the return to 5.6%. Missing 30 of the best days delivered a return of just 2.1% — less than the 2.5% average inflation over the same time period.¹

What's more, the best days tend to cluster in the midst of a bear market or recession, precisely when many investors start to panic. And some of the worst days occurred during bull markets, when investor confidence typically soars. It's almost impossible to time portfolio changes to both avoid the worst days and capture the best days, which is why many investors could benefit from staying the course.

Market volatility: Realistic expectations are important

Much of the emotional turmoil around market volatility stems from unrealistic expectations of risk. “When your risk expectation doesn't match the amount of volatility or risk in your portfolio, you may become nervous when you see the value start to decrease beyond a certain level,” McMillion explains. “Defining realistic expectations and aligning your risk to those expectations are key.”

Your desired risk levels also depend on your age, your time horizon, and your long-term goals. “That's why we recommend investors meet with their financial advisor to revisit their allocations at least once a year,” McMillion says. “If you don't make adjustments, you may have greater exposure to downside volatility, like during periods of rising inflation or in a market downturn.”

Three strategies for market volatility

McMillion says that there are other actions to take that can help you navigate the emotions and stress of market volatility. Consider these three strategies — and talk with your advisor about other ways to help navigate volatility.

Build a cash emergency fund. For some, a six-month emergency fund is sufficient. For others, 18 months could be more comfortable. “Holding cash helps investors keep their long-term assets invested in the market so they can avoid having to sell at an inopportune time,” McMillion says. “You may be able to better navigate a period of market volatility when you have cash reserves.”

Diversify your investments. “It's important to consider holding different types of assets because they behave differently under different economic conditions,” McMillion says. “For example, when the equity market goes down, the bond market often has gone up. Those bonds can act as an income generator and portfolio stabilizer during periods of downside volatility.” Your financial advisor can help you decide on an asset mix for you. Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

Consider dollar cost averaging. “During periods of market volatility, it can actually be a good time to invest. It’s like buying when things are on sale,” she says. “If you invest at regular intervals — say, the same amount month after month — you can capture those market downturns and leverage them for future growth potential if the market corrects.” A periodic investment plan such as dollar cost averaging does not assure a profit or protect against a loss in declining markets. Since such a strategy involves continuous investment, the investor should consider his or her ability to continue purchases through periods of low price levels.

¹. Sources: Bloomberg and Wells Fargo Investment Institute. Daily data: July 1, 1995 through June 30, 2025 for the S&P 500 Index. Best days are calculated using daily returns. For illustrative purposes only. An index is unmanaged and not available for direct investment. **A price index is not a total return index and does not include the reinvestment of dividends. Past performance is no guarantee of future results.**

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