CION INVESTMENTS

Adapting Your Portfolio to Increased Volatility

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Volatility has increased as the Federal Reserve continues its work to bring down inflation. The timing of interest rate decisions remains uncertain, and until there is a clear path, markets are likely to remain sensitive to economic data, statements by the Fed governors, and macro events. If you are at a point in your retirement planning where you have less than ten years to recover, or if you would just prefer to have potentially more portfolio stability, there are some moves you can make that can help smooth returns to some extent.

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 possibly smooth returns, and to create some “dry powder” for future investment opportunities.

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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. Illiquid private credit can offer more attractive yields than public credit due to an opportunistic focus on companies with limited funding options. In addition, in down markets, loan funding becomes scarce, and some private lenders can often charge a premium for access to capital.

These types of assets should only be considered if complete liquidity is not needed.

Risks

As with any asset class, there are certain risks associated with private credit. Credit risk is the risk of nonpayment of scheduled interest or principal payments on a debt investment. Because private credit can be debt investments in non-investment grade borrowers, the risk of default may be greater. Should a borrower fail to make a payment, or default, this may affect the overall return to the lender. Further, private credit investments are generally illiquid which require longer investment time horizons than other investments. For these and other reasons, this asset class is considered speculative and may not be suitable for everyone.

To learn more, please contact your financial professional.

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