What is market volatility?

Market volatility is a term used to describe the daily fluctuations, large or small, of the stock market. Volatility also describes the condition of a security, which is a general term used to describe an investment like a stock, bond or mutual fund. A security has high volatility if its value fluctuates frequently over a period of time, and low volatility if its value remains relatively steady over a period of time. Normally, a security with higher volatility indicates a riskier investment.

There are a wide range of factors that may affect market volatility such as world events, performance of certain sectors of the market, macroeconomic factors and natural disasters. Most of these factors are beyond anyone's control and happen unexpectedly.

Should I be worried about my savings during a volatile period?

When a drop in the stock market occurs, it's easy to become discouraged or even nervous about your retirement savings funds. But don't overreact.

Market volatility is a normal and inevitable part of the stock market cycle and should be factored into your long-term investment strategy. It's like experiencing a cramp while running a marathon; you may feel uncomfortable in the moment and begin to lose sight of the end goal, but staying the course is the best way to cross the finish line. Similarly, understanding your investment strategy and maintaining that focus through a volatile period may help you reach your retirement goals.

Familiarizing yourself with the history of the stock market may give you peace of mind if you are experiencing a period of market volatility. Historically, stock market drops have been followed by an eventual bounce and market growth. The graph on the next page shows that recovery periods have historically lasted longer than downturn periods.

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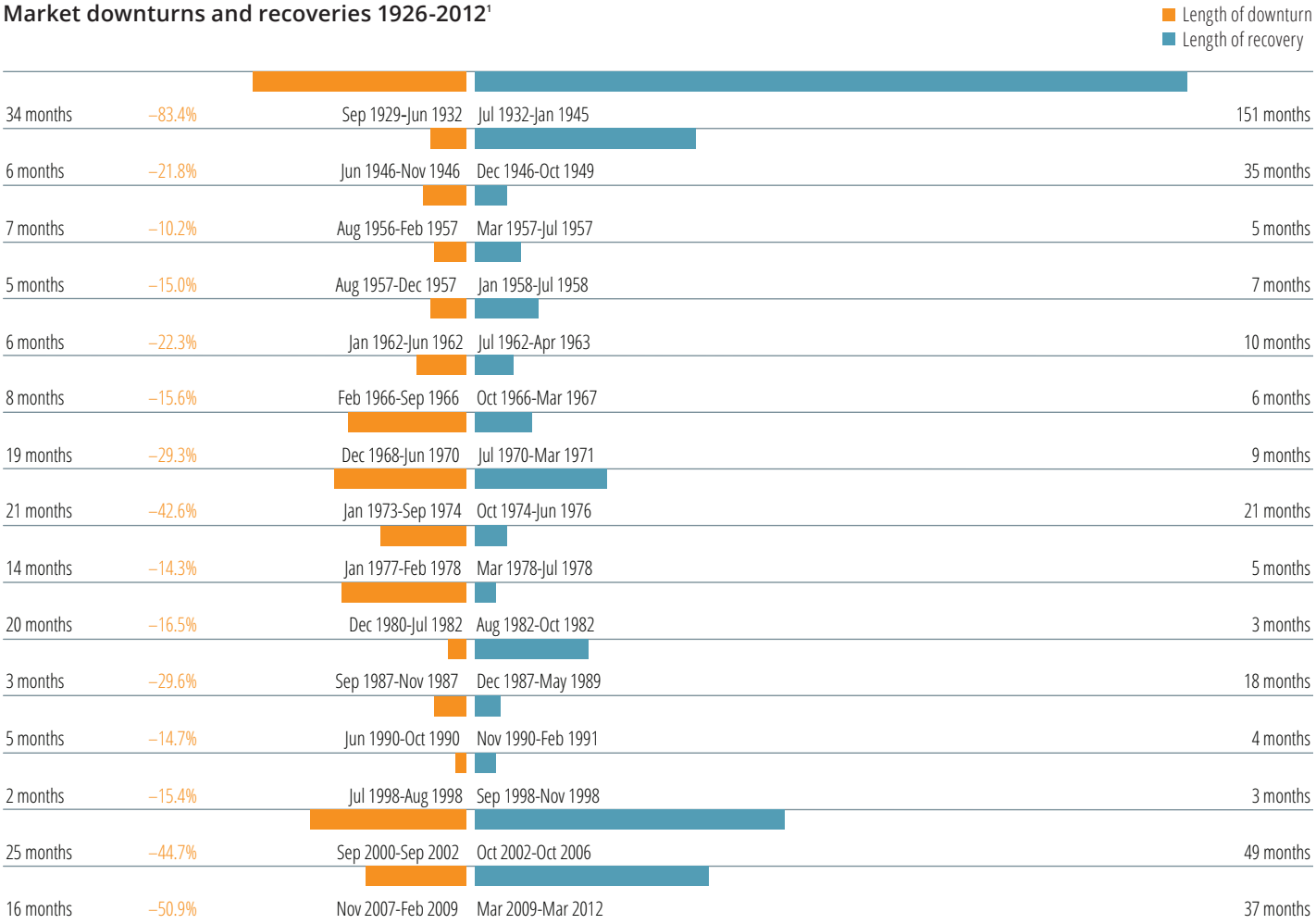
Market downturns and recoveries 1926-2012[1]



1 Source: MorningStar Direct℠ 2015

How can I minimize risk?

Understand your risk tolerance

When determining an investment strategy that will help you meet your retirement goals, you may want to consider factors such as your current age, desired retirement age and current savings to determine the amount of risk or volatility you are comfortable with in your portfolio. If you have plenty of time before your planned retirement age, you may feel comfortable creating a more aggressive portfolio that, while typically characterized by high growth potential, could be subject to greater short-term fluctuations.

However, if you are nearing retirement, you may want to consider a more conservative portfolio. You may need access to your money sooner and therefore won't want to be exposed to potential market drops in the short term.

Diversify your portfolio

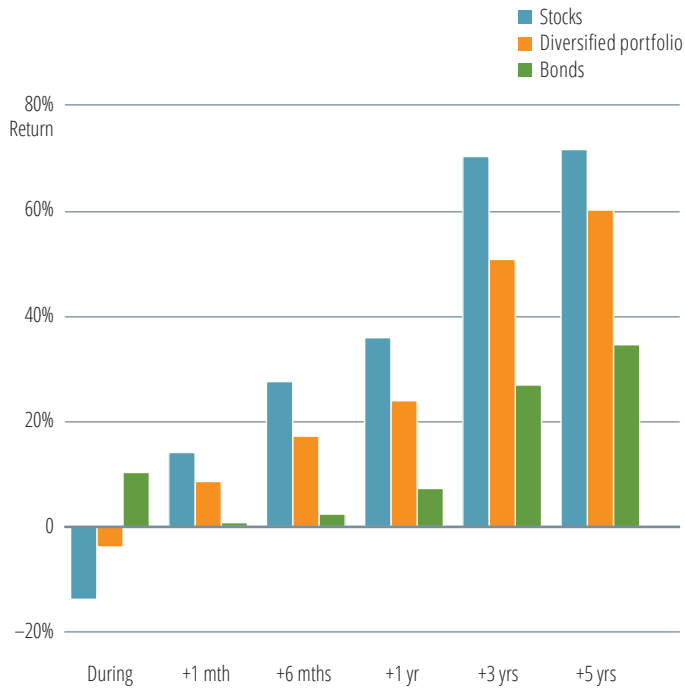
One step you can take to reduce the impact of market volatility on your investment portfolio is to allocate your assets across different asset classes in more than one market segment. This is called diversification. For example, you may purchase a variety of stocks and bonds representing various industries. While one market may be experiencing a downturn, another could be growing. Therefore, you may be able to offset losses in one segment with gains or smaller losses in another segment. The data to the right shows how different investments have performed both during and after past recessions.

Don't try timing the market

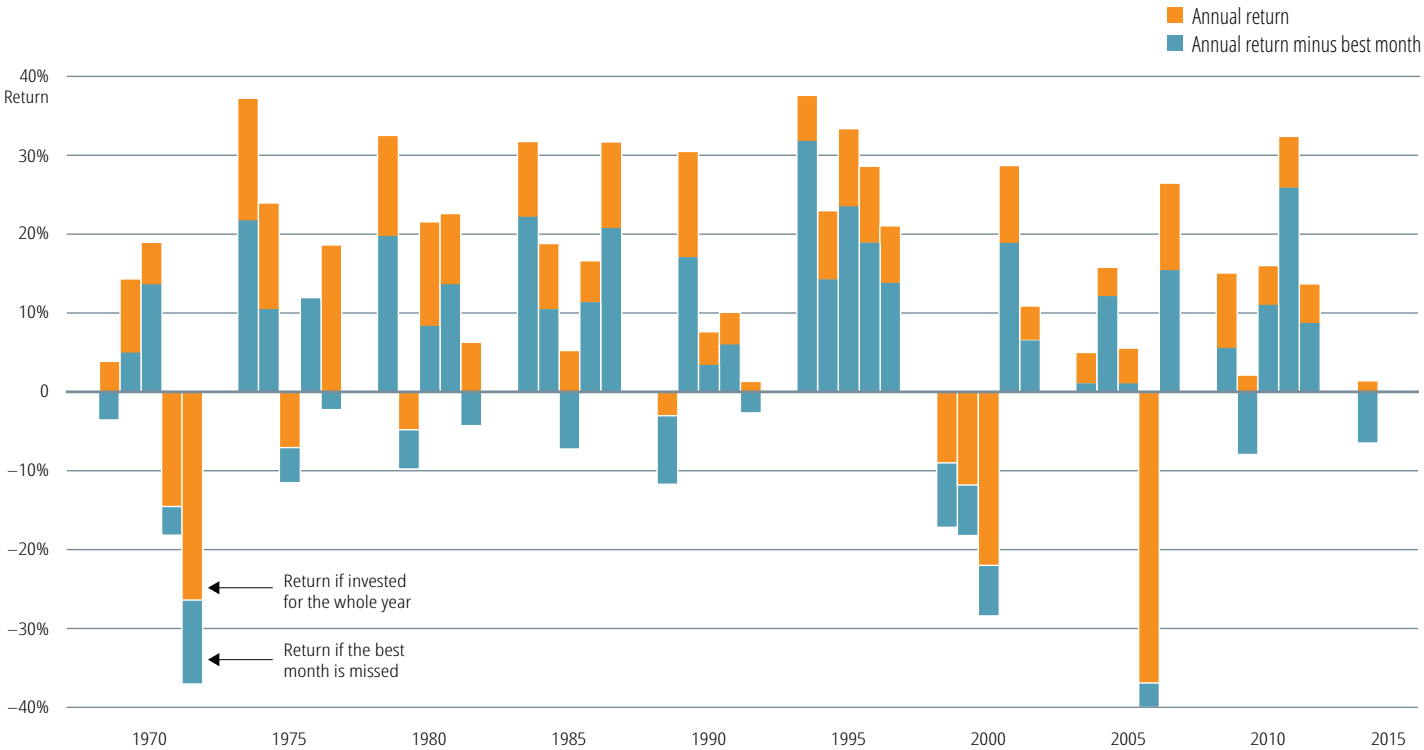
Taking your money out of the market in order to avoid the worst days may end up setting you back. While avoiding the worst market days may help your overall growth, the market's unpredictable nature can result in market spikes on any given day. Missing out on the best days of the market may result in significant losses compared to riding out the volatility.

The data below shows the cost of missing out on the best market days.

Peformance during and after recessions[1]



Market-timing risk: the effect of missing the best month of annual returns 1970-2015[1]



If you still feel anxious or unsettled about your current investments or about the market overall, call us at the phone number on your statement. We'll talk you through all your options and help you through your retirement savings journey.

Past performance is no guarantee of future results. This is for ILLUSTRATIVE PURPOSES ONLY and not indicative of any investment. Recession data is from National Bureau of Economic Research (NBER). The average cumulative returns are calculated from the end of each of the longest four recessions in U.S. history (1929-2008). The four recession periods considered herein as defined by the NBER are as follows: August 1929-March 1933; May 1937-June 1938; November 1973-March 1975; and July 1981-November 1982. The recession that began in December 2007 and ended in June 2009 is not included in the analysis. The diversified portfolio consists of 60% stocks and 40% bonds and is always rebalanced. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses.

Stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general, and bonds by the 20-year U.S. government bond. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Core securities, when offered, are offered through GWFS Equities, Inc. and/or other broker-dealers. GWFS Equities, Inc., Member FINRA/SIPC, is a wholly owned subsidiary of Great-West Life & Annuity Insurance Company.

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