Volatility is back. Your success as an investor is based on how you?ll deal with it. Here are some rules to help you cope. **First,** reconsider your allocation. If you have 50% or 60% stock exposure in what?s often called a ?balanced? portfolio, and you can?t handle a 5% or 10% portfolio hiccup, you?re probably in the wrong allocation. After all, a correction (stock market decline of 10%) will take your portfolio down around 5% and a bear market (stock market decline of 20% or more) will take your portfolio down 10% or more. In 2008, balanced portfolios dropped around 20%, and that?s what I tell balanced portfolio investors to anticipate. We?ve had two 50% drawdowns in the stock market since 2000, and there?s no reason why we can?t have another one. It?s true, we may not. But we just as easily might. Now is a good time to do a gut check or reconsider your allocation. It?s possible that you can handle more volatility, but are just unaccustomed to it right now, so it feels particularly bad. Think about what it will be like to see your portfolio down 20% or 25%. And put a dollar value on that. Most people don?t think of their money in terms of percentages. That will help you figure out if you're reasonably allocated or not. **Second,** don't be ashamed to admit you can only handle so much volatility. Financial planners are always pushing clients to invest more in stocks. But I think they do their clients a disservice because the advisors are neglecting to consider carefully whether the clients can handle the volatility of owning stocks. Sure, planners give clients risk questionnaires. But those only go so far. Nobody really knows hows they'll react to stress until it arrives. Also, advisors are human, and they probably have a more attractive view of themselves and their skills than they should. That means they think they?ll be able to soothe you better than they probably will when the market goes down. Advisors like to think that they can soothe clients, but if the client wants to leave, the advisor will do what the client says rather than lose the client. So don?t let an advisor push you into more stock exposure than you can handle. The best advisors work hard to find out what the best allocation is for you; they don't try to push you into an allocation or make you feel badly for not having more stock exposure. **Third,** if you have to sell, don?t get all out of stocks with your long term money. It?s a mistake to sell everything, even if you think the market will keep going down, and it does. That?s because it will be harder to get back in. You won?t know where the bottom is (nobody ever does), and you?ll be too scared to dribble money in if you?re all out. If you maintain some modicum of stock exposure, you?ll at least have that capturing gains when the market delivers them again. But you might be wrong about when the market will turn, so keep 25% of stock exposure as a hedge against your inability to call at bottom -- or act after prices drop a lot. Investment legend Benjamin Graham said ?enterprising investors,? those who study the markets and investments carefully, can toggle between 25% and 75% stock exposure, but no more and no less on either end. You might want your bands to be more narrow depending on your age, etc? Try toggling between 60% and 30%. Personally, I think valuations are insane, but I have for a long time. And the market just keeps running. That doesn?t mean I may not be correct eventually, but eventually can be a very long time. Have some humility. You need it in this game. **Fourth,** don't assume changing your allocation is easy . If you go down to 25% or 30% stock exposure, but that?s not really optimal for you, it may be hard to get back in. That's because the criteria you might wait for ? a cheap P/E ratio or some technical indicator ? may never materialize or stick around long enough for you to act. **Fifth,** even if you do get an opportunity, remember there?s never a time when ?the coast is clear.? Whenever stocks drop a lot, it feels bad to buy them, even if that?s what you should be doing. That?s why having a system is so important. Simply responding to market moves in an *ad hoc* manner probably won't go well. **Sixth,** see an advisor if you can't settle non an asset allocation or handle market moves well.