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IR 101: Managing Market Volatility

Uncertainty is often the culprit leading to market volatility; during such periods, investor relations plays an even greater role in managing communications to and from key stakeholders.

Given its bridging function between internal and external audiences, investor relations should serve as the "clearinghouse" for information during periods of significant market volatility that will test investors' resolve. Since volatility is a direct result of the fear and doubt caused by a lack of information, companies should consider any proactive means at their disposal to alleviate investor concerns at the company level and defend the business narrative in an overall uncertain environment. In fact, considering your investors may shift their investment thesis quickly, you must be proactive to defend your business narrative.

The recent news out of southern Europe is an example of a potential macroeconomic issue that weighed heavily on the financial markets and many individual stocks. While most companies have little direct exposure to Greece, Portugal and Spain, the resulting impact on the euro, and by extension the outlook for the global economic recovery, has been significant. These factors have affected valuations across the global markets. Providing perspective on your company's exposure to the euro or the broader European economy (if any) is key to allowing investors community to properly gauge your exposure to this issue.

Put your stock's performance in context and serve as an information hub to your internal audiences.

In any period of volatility, communicate with your management team early and often on what you are hearing from the sell-side, industry analysts, financial media, and, most importantly, your investors – particularly when macroeconomic issues are making headlines and driving uncertainty and volatility. Also, be prepared to answer to the Board directly, or through the management team.

Importantly, there are two key items to prepare in times like these.

- **Market dynamics**. Particularly in times of extreme volatility, it is essential that you are an expert on macro or sector issues that are impacting the performance of both the broader markets and your industry. Separate economic and market dynamics from company-specific issues, but understand that macroeconomic developments will likely impact the business. The key is not to ignore this, but rather put it into context.

- **Relative performance**. While management and the Board may be focused on the performance of the stock, you should ensure that they are viewing this performance within the context of broader market dynamics. For example, consider performance on a relative basis to one's peers and assess why specific conditions might be affecting your stock more or less than the broader group.

Take your message to the investment community, but do so within the confines of normal communications.

Maintain an open line of communications with the investment community during times of uncertainty.

- **Be proactive, but purposeful**. Investors are often forced to contend with numerous crises at once, particularly if the cause is systemic. Do not reach out unless you can provide meaningful insight that can help them in their analysis, such as context as to how the trends in question do/do not impact your company. If you have a particular perspective to share, even through the lens of historical information, it could prove useful in synthesizing the risk and opportunity specific to your stock.

  In addition, listen to your investors' perspectives on the situation and understand their concerns. If necessary and appropriate, provide them with access to your senior executives. As is always the case, be careful to avoid sharing any material new information.

- **Do not ignore the obvious**. Macroeconomic uncertainty will almost certainly impact your business – the real question is by how much and for how long. You may not be able to answer these questions directly, but any historical information, or linkages to other already established fact patterns may help put current uncertainties into better context.

Time and trust – the keys to maintaining credibility.

Credibility is largely built by consistently delivering on your commitments through good times, and even more so, by managing effectively through times of challenge or uncertainty. The latter is usually where a misstep or divergence from the business narrative causes the investment community to re-assess their investment thesis. Once this re-evaluation has begun, it is difficult to reverse. In times of volatility, providing additional perspective to investors can help clarify the relevance of a given market issue to your company and fill in some of the information void that be unnecessarily impacting valuation.

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