Strategies for Dealing with Difficult Markets

5 Strategies for Dealing with Difficult Markets:

1. **Take a Long Term View:**
   Any sharp decline in the stock market is often accompanied by dire headlines in the media, often using words like crisis or meltdown. Although the news reporting helps to create a climate of urgency and fear, the fact is that volatility is a normal part of investing. A look at the chart, which represents the long-term performance of the S&P/TSX Composite Index, shows that fluctuations are simply par for the course. Even significant declines are not unusual. There have been seven declines exceeding 25% in the Canadian market since 1965. However, even though market volatility is not unusual, it can still be unsettling. That's why it's also important to remember that market declines have been followed by even greater recoveries. The stock market eventually retraced its losses and went on to post new highs. In fact, the S&P/TSX Composite Index has posted a very respectable average annual return of 9.3% over the 50 years ending December 31, 2017. But to reach that return, investors had to travel through some peaks and valleys. One defence against market volatility is to try to put the daily news into a long-term perspective. Despite the crisis reporting, we know that recessions end, that businesses continue to operate, and that economies and markets recover and grow.

2. **Be Diversified:**
   Diversification is a key principle in investing, and it refers to the practice of spreading your investments among the different asset classes: stocks, bonds and cash. These broad asset classes can be further subdivided – stocks, for example, should include Canadian, U.S. and international stocks, as well as large and small company stocks. Why is diversification important? Each asset class performs differently as market and economic conditions change, and there is no way to predict which one will be the leader. The process of determining a portfolio's asset mix is called strategic asset allocation. This recognizes that different asset classes have different risk-return profiles. Most portfolios will include some bonds or bond funds, which offer stability but relatively lower long-term returns, and some equities or equity funds, which are more volatile in the short term but have had higher long-term returns. The goal of strategic asset allocation is to choose a portfolio mix that will maximize returns at a risk level that is appropriate for you (your "risk tolerance").

3. **Resist the Temptation of Market Timing:**
   The ideal strategy for an investor is to sell out of the market before it declines and reinvest just as it begins to recover. Of course, this strategy is nearly impossible to execute in reality. After a sharp decline in the market, many investors naturally want to sell to avoid the potential for further drops in their equity portfolio. Not only does

that lock in your losses, but it also raises the question of when to reinvest. Historically, there have been no indicators that have consistently predicted the direction of the market. Even the economy is not a reliable predictor, because the stock market often rebounds months before an economic recovery is evident. Furthermore, when the market does recover, its gains often come in bursts. Missing those few days or months of strong returns can have a huge impact, as shown in the table. For example, an investor who stayed invested in the Canadian stock market over the entire 10 years ending December 31, 2017 would have had an average annual return of 4.7%. Missing just the 10 best days would have reduced that return to -1.5%, while missing the 20 best days would have resulted in a return of -5.3%. In other words, staying invested can be the best strategy.

4. **Take Advantage of Market Volatility:**
It's difficult to watch your portfolio and the markets decline in value and think that this is a good thing. But some investors do. Given the stock market's long-term rising trend, market declines have been an opportunity for long-term investors to buy stocks at lower prices. It's as if stocks are on sale.

Dollar cost averaging:

Dollar cost averaging refers to the practice of investing a fixed amount of money at regular intervals, regardless of market moves. The result is that you buy more units when prices are falling and fewer units when prices are rising. In volatile markets, this practice tends to lower the average cost of your investments.

Rebalancing:

Rebalancing is the practice of selling asset classes that have performed well and reinvesting in those asset classes that have underperformed. It is the process used to maintain one's asset allocation.

5. **Invest with an Advisor**
Research shows that Canadians who work with a financial advisor accumulate more assets, and the longer they get advice, the more their wealth grows. People who use a financial advisor acquire a greater savings discipline, which plays an important role in growing household wealth over time and in having sufficient funds for retirement. Specifically, the research shows that Canadians who work with a financial advisor for four to six years accumulate 1.58 times more household financial assets than those who go it alone. Households with an advisor for seven to 14 years amass 1.99 times more assets. After 15 years or more, households using an advisor have 2.73 times more assets. (Source: The Gamma Factor and the Value of Financial Advice, by Claude

Montmarquette and Nathalie ViennotBriot, CIRANO, 2016). Advisors have the expertise and the experience to guide you through difficult times, so that you're positioned to benefit from the inevitable recovery.

Source: CI Investments