Why you should stay invested when markets are volatile

The stock market is the only place where things go on sale and buyers run for the door. Volatility may be an unwelcomed guest, but it has historically been a frequent visitor. Though negative market performance is enough to make even the most seasoned investor panic, it's not always a sign to abandon ship. In fact, the past has shown us that the majority of serious events resulting in more than a 10% dip have had a significant rise in markets follow suite.

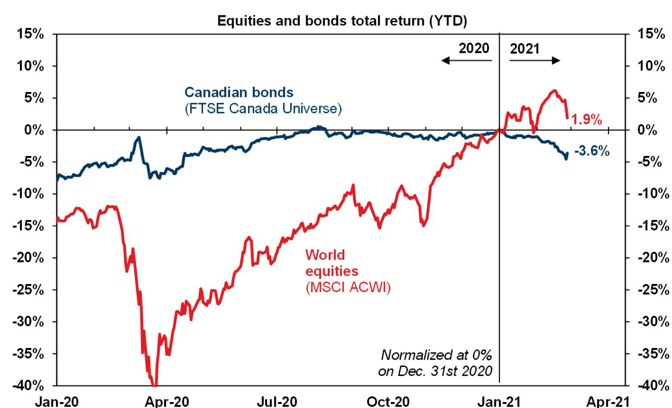
We came up with five tips to keep in mind when the uncertainty of volatility rears its head.

1. Don't time the market. Seriously.

Data shows that market timing is not a great investment strategy: it can even lead to the depreciation of your capital. We recommend saving over the long term with sporadic readjustments. By investing early on, your investments have more opportunities to grow and you'll have more time to recover from any potential losses you may incur.

2. Manage your emotions

Easier said than done, we know. But do what you can to set your emotions aside. If you're having trouble sleeping at night, speak with your advisor. They're there to help guide you through a whole range of emotions that we're all feeling. Your repertoire of street smarts serves you well in a day-to-day context, but in a financial arena, emotional biases stem from impulsive reactions or gut feelings not founded in actual fact. Those who stay the course are rewarded for their patience.



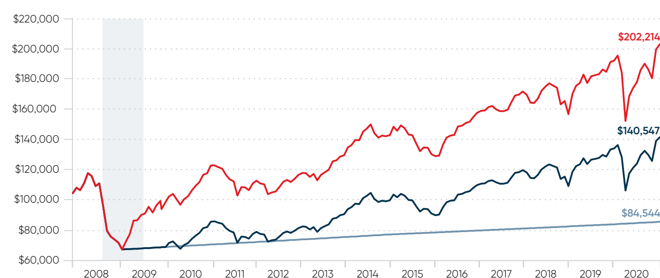
Source: National Bank Investments.

3. Invest regularly and buy low

Now's a great time to talk about periodic savings initiatives. Investing a fixed amount at regular intervals increases your buying opportunity when the market falls, and less so when they rise again. Your capital is continuously growing and your purchasing power climbs steadily over the years.

4. Reconsider your risk tolerance and investment horizon

Radically changing your investment strategy when the markets go down could result in regret down the line. It's important to reassess what your risk tolerance is (how much risk you're willing to take on your investments) and your investment horizon (the point at which you're going to need to cash in that money) and stay loyal to those beliefs.



Source: Morningstar and National Bank of Canada GICs's rate, from January 1, 2007, to December 31, 2020.

All values are represented in CAD. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment.

An investment cannot be made directly in an index. Market: S&P/TSX.

- Stayed invested in the stock market
- Recession (Oct. 2008 to June 2009)
- Exited market and reinvested after 1 year
- Exited market and invested in cash

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5. Make sure to opt for diversification

Asset classes are sensitive to market fluctuations, and it's outside of our control to know which ones will be affected next. Ask your advisor if your assets are optimally allocated rather than withdrawing from the market entirely. Reallocations may allow your money to grow in other sectors or securities that are more promising. It can be a profitable strategy if you eventually benefit from a rebound in the market or gain value by dipping into different asset classes.

The takeaway: stay invested!

Sure, volatility can trigger feelings of uncertainty, but they won't last forever! Favour the long term; short-term anxieties may tempt you to part ways with your assets when, historically, volatility occurs for a far shorter period than a rise in the market does.

To find the proper strategy for your own situation, don't hesitate to talk to your advisor.

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