Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
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Volatility in Perspective

As we continue to see large swings in the market (including a very large up day on Monday), we felt it was important to offer some additional context. Regardless of the reason for a market selling off, volatility is a very common and normal part of investing. The last week and a half may be attributed mostly to concerns about the Coronavirus, however a major part of the steep downturn had to do with the inflated levels that stocks were trading at going into February. While the extremely quick nature of this recent downturn is never an ideal situation for most investors, it is good to be reminded of how often this level of selloff actually does occur during market cycles. Often, even positive return years contain a selloff of 10% or more.

RBC Global Asset Management has released a helpful article entitled “Volatility in Perspective”. Each slide provides some great information, but it is especially interesting to note the investor psychology during times of apparent panic (slide 5). You will notice that investors tend to sell the most at or near market bottoms. Since the 2008-09 financial crisis, that is even more apparent. This is precisely the type of mindset we prefer to avoid.

On slide 6, you will note the positive returns tend to occur after a drawdown of 10%, whether that is in the short term (months), or a few years out.

It is during these times that it makes the most sense to stick with your investment plan, and to consider short term market fluctuations as opportunities.

If you have any questions about this, or your portfolio, please don’t hesitate to contact us.