

# 8 Principles of Successful Investing in Volatile Markets

BY **CAROL FICKLING**

Stock market volatility is a normal part of investing. The following eight principles can help you manage volatility and achieve your long-term investment goals.

**1. STAY CALM AND INVEST ON.** When the markets are particularly volatile, there's a natural tendency for investors to move into safer investments, hoping to avoid further losses, and wait until the markets recover. But unfortunately, it's nearly impossible to predict when markets will recover. As a result, investors may miss out on the eventual recovery, which can negatively impact their long-term investment goals.

**2. AVOID MARKET TIMING.** On a related note, some investors try to improve their returns by attempting to "time" the market – selling right before the markets go down, then buying right before they go up again. In theory, this sounds great. But in practice, it rarely works, simply because it's so difficult to predict when the markets will go up or down. Unfortunately, that doesn't stop investors from trying, which is why the "average investor" tends to underperform virtually every asset class.

**3. MAINTAIN YOUR SENSE OF PERSPECTIVE.** Unquestionably, stock market downturns can be painful, especially when you're in the middle of one. It's not always easy, but it's important to remember that downturns have happened before – and will happen again – and that historically, the markets have always recovered and reached new highs.

**4. REASSESS YOUR COMFORT LEVEL WITH RISK.** It's one thing to say you are comfortable with a higher level of risk when the markets are only going up, and another thing when the markets are volatile. If you are finding it difficult to sleep at night because of market volatility, then it might be time to consider how much risk you are truly comfortable taking with your investments.

**5. STAY DIVERSIFIED.** Diversifying your investments is a proven way to reduce market volatility. It involves including a certain mix of stocks, bonds, and cash in your investment portfolio, as well as investments representing different industry sectors or geographic areas. At any given time, one type of investment may do better than another. So by diversifying between them, you can offset weaker performers with stronger performers, reducing volatility. What's more, it can be difficult to determine exactly when one type of investment will do better than another, which is why it makes sense to stay diversified.

**6. LOOK FOR OPPORTUNITIES.** "Summer sale! Prices slashed!" When it's a retail store saying those words, it's usually a good thing. Yet, when it's the stock markets, people often have the opposite reaction. When prices drop, they sell instead of buy. But when the stock markets go down, it can be fairly indiscriminate: both good and bad stocks can be caught up in the sell-off. What that means is, during a market downturn, there can be some high-quality stocks likely to be among the first to bounce back, available at temporarily reduced prices.

**7. REGULARLY REBALANCE.** How you diversify your portfolio between different investments plays an important role in how much volatility you can expect. In general, if you include more stocks in your portfolio, you will experience greater volatility, but also greater long-term growth potential. Conversely, if you include more bonds, you will experience lower volatility, but also lower growth potential. Everyone has an ideal balance, based on factors such as:

- How long you have to invest.
- How much growth you need.
- How much risk you are willing to take.

But over time, market fluctuations can cause the balance to shift in your portfolio, as one asset class outperforms another and eventually represents a greater percentage of your portfolio than you had originally intended. As a result, it makes sense to regularly rebalance your portfolio to get back to an ideal balance.

**8. REVIEW YOUR PORTFOLIO.** Always review your portfolio with a trusted professional. Do you have questions about your investments? Wondering if you should make any changes given the recent market volatility? We would be happy to help you review your investments to ensure your portfolio is right for you.

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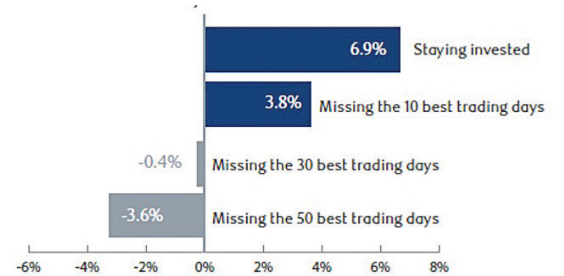
**Why it's best to stay invested**




Based on the annualized returns of the S&P/TSX Composite Index for 10 years, ending December 31, 2019.
Source: Bloomberg, RBC Global Asset Management.