Wealth Management
Dominion Securities

Staying the course

Strategies to help you maintain confidence through all types of markets

Daily market fluctuations highlight why a combination of discipline and perspective is key to reaching your investment goals. One way to achieve this fine balance is by having a plan and sticking to it through all types of market conditions. This may sound easy, but investors have been put to the test in recent years. Veering off course from a carefully thought-out plan can turn a temporary loss of confidence into a realized loss on an investment portfolio. Here are five strategies that can help you minimize the impact of market fluctuations and help you feel confident about reaching your long-term goals:

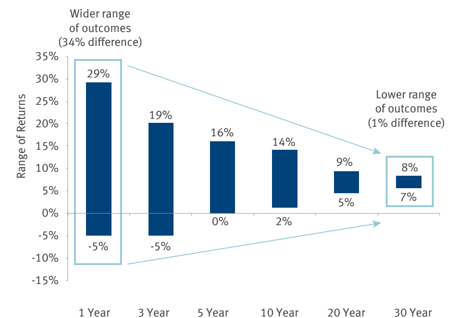
By having a plan, and sticking to it, you can "stay on course" to achieving your long-term investment goals.

1. Use time to your advantage

Investors who maintain perspective and stay mindful of their investment time horizon have a better chance of reaching their investment goals than those who react to short-term market fluctuations.

Staying invested and trying not to "enter and exit" the markets when volatility increases can help reduce fluctuations over the long term. The longer an investment is held in a portfolio, the less chance it has of incurring a negative rate of return. This is because fluctuations in value tend to smooth out over time as the impact of market volatility diminishes. Moreover, years of strong equity markets can outweigh periods of decline, resulting in long-term returns that outperform other asset classes.

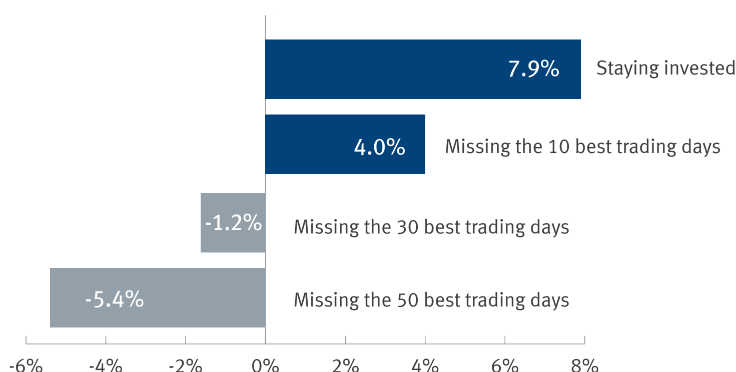
The volatility of a diversified portfolio decreases over time



* Rolling 1-, 3-, 5-, 10-, 20- and 30-year average annual returns from January 1988 to December 2018. Diversified Portfolio represented by 2% Cash, 43% Fixed Income, 19% Canadian Equities, 20% U.S. Equities and 16% International Equities. Cash represented by FTSE Canada 30 Day TBill Index; Fixed Income represented by FTSE Canada Universe Bond Index; Canadian Equities represented by S&P/TSX Composite Total Return Index; U.S. Equities represented by S&P 500 Total Return Index; International Equities represented by MSCI EAFE Net of Taxes Total Return Index. Source: Bloomberg, RBC Global Asset Management.

Why it's best to stay invested

Missing just the 10 best days in the market over the past 10 years would have reduced returns significantly.



Based on the annualized returns of the S&P/TSX Composite Index for 10 years, ending December 31, 2018.
Source: Bloomberg, RBC Global Asset Management.

2. Maintain discipline

History shows that by maintaining discipline and perspective during market downturns, a patient investor will often be the one rewarded when markets return to an upward path.

As market volatility increases, investors have a natural tendency to want to move into safer investments, hoping to avoid further losses. However, this move can result in needlessly locking in losses on investments that, given time, are likely to recover. A key to overcoming this emotional reaction is to refrain from trying to time the market. Selling at the wrong time and missing just a few days of a market recovery could have a significant long-term impact on your portfolio.

3. Diversify your portfolio

Diversification, long considered the golden rule of investing, remains key to reducing portfolio volatility and risk.

Diversification means including in your portfolio a combination of investments from different asset classes, including cash, fixed income and equities, as well as different industry sectors, geographic areas and investment styles. Financial markets do not move in concert with one another and individual asset classes will perform differently in any given year. At any time, one asset class may be leading the market, while the others lag.

Diversification can help reduce the impact of market volatility on your overall portfolio by combining assets that react differently to changing market conditions. As the chart (next page) shows, it can be difficult to predict which asset classes will lead the market each year and which ones will underperform.

A strong case for diversifying your investment portfolio

2014	2015	2016	2017	2018
US Equities 24.4%	US Equities 20.8%	CDN Equities 21.1%	EM Equities 28.3%	US Equities 3.8%
Balanced 11.4%	INTL Equities 19.0%	US HY Bonds 14.3%	INTL Equities 16.8%	Global Bonds 1.9%
CDN Equities 10.6%	Balanced 6.5%	US Equities 8.6%	US Equities 14.1%	CDN Bonds 1.4%
Global Bonds 9.4%	CDN Bonds 3.5%	EM Equities 7.3%	CDN Equities 9.1%	Cash 1.3%
CDN Bonds 8.8%	EM Equities 2.0%	Balanced 6.5%	Balanced 8.8%	Balanced -1.3%
EM Equities 6.6%	Global Bonds 1.9%	Global Bonds 3.5%	US HY Bonds 6.4%	US HY Bonds -2.9%
US HY Bonds 4.3%	Cash 0.6%	CDN Bonds 1.7%	CDN Bonds 2.5%	INTL Equities -6.0%
INTL Equities 3.7%	US HY Bonds -2.7%	Cash 0.5%	Global Bonds 1.8%	EM Equities -6.9%
Cash 0.9%	CDN Equities -8.3%	INTL Equities -2.5%	Cash 0.6%	CDN Equities -8.9%

Asset class	Index
CDN Equities (Canadian Equities)	S&P/TSX Composite Total Return Index
US Equities	S&P 500 Total Return Index
INTL Equities (International Equities)	MSCI EAFE Total Return Index
EM Equities (Emerging Market Equities)	MSCI Emerging Markets Total Return Index
CDN Bonds (Canadian Bonds)	FTSE TMX Canada Universe Bond Index
US HY BONDS (U.S. High-Yield Bonds)	ICE Bank of America Merrill Lynch US High-Yield BB-B TR Index
Global Bonds	Citigroup World Global Bond TR Index
Balanced (Balanced Portfolio)	55% Equity / 45% Fixed Income
Cash	FTSE TMX Canada 30 Day T-Bill Index

All performance is in C$.
Source: RBC Global Asset Management Inc. as of December 31, 2018.

Reacting to short-term market "noise" by making dramatic portfolio changes, like moving in and out of the markets, can have a negative impact on achieving your long-term investment goals.

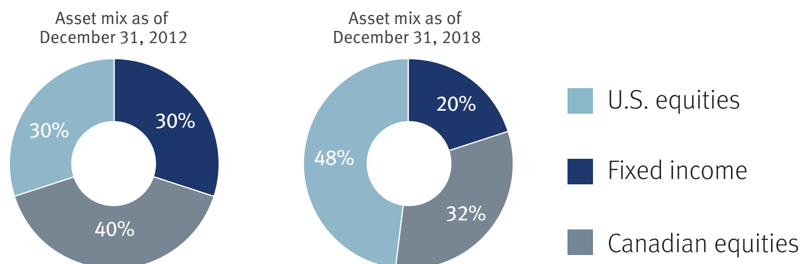
4. Regularly rebalance

Market fluctuations can often cause a shift in how your assets are divided in your portfolio (also known as asset mix drift), leading to a very different asset mix — and investment experience — than originally intended.

Rebalancing is one of the more effective ways to stay on track to reach your investment objectives.

Not only does it help keep your portfolio aligned with your investment goals, it also gives you the opportunity to lock in gains from one asset class and redeploy them to other asset classes that have become relatively inexpensive. Investment portfolios that are regularly rebalanced and adjusted tactically can take advantage of shorter-term opportunities without losing sight of the long-term strategic allocation.

The impact of portfolio drift



Canadian equities: S&P/TSX Composite Total Return Index. Fixed income: FTSE TMX Canada Universe Bond Total Return Index. U.S. equities: S&P 500 Total Return Index. All performance in C$.
Source: RBC Global Asset Management.

5. Invest regularly

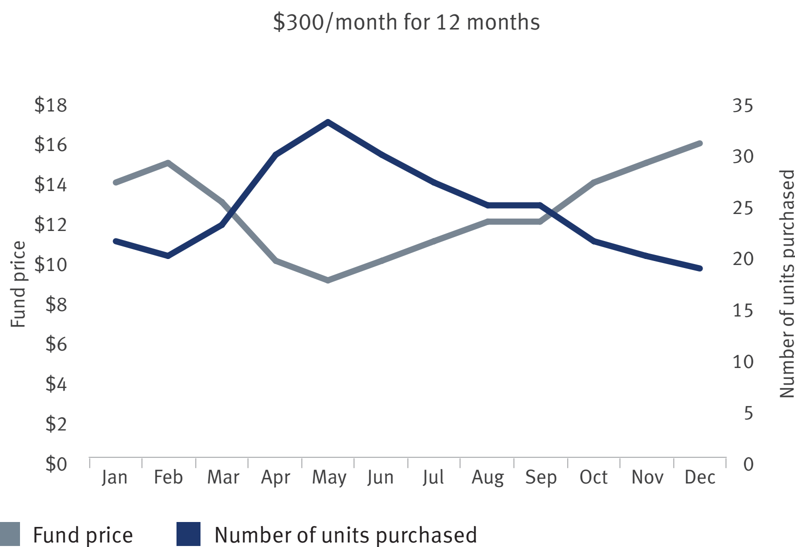
Investing a fixed amount on a regular basis ensures that your investment strategy remains a priority through all types of market conditions.

By contributing smaller amounts of money to an investment plan on an ongoing basis (bi-weekly, monthly), regular investing acts as an anchor to help you maintain discipline when market conditions become volatile.

Regular investing also provides the opportunity to help smooth out returns over time, ultimately reducing overall portfolio volatility. This is achieved because investing a fixed dollar amount on a regular basis gives you a chance to buy more investment units when prices are low and fewer units when prices are high, thereby producing a more level investing experience over the long term.

Investing regularly in a fluctuating market

$300/month for 12 months



Source: RBC Global Asset Management.

Where do you go from here?

The five strategies outlined above can help you stay focused and feel confident about reaching your long-term investment goals. Talk to us about these strategies to help ensure you stay the course and maintain confidence through all types of markets.

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