# Stock market: The importance of staying on course

Wealth Management
Dominion Securities

Navigating equity bear markets requires greater-than-usual patience. Given the potential cost of missing periods of strong returns, the more suitable course of action for most investors is to remain disciplined and fully invested.

## Corrections are normal

Equity markets endured high volatility in 2022, with many major indices finishing the year in negative territory. While sharp corrections and prolonged bear markets are unpleasant, they are a normal part of investing in stocks. Since 1928, the S&P 500 has experienced 26 bear markets—defined as declines of 20% or more—with many of these corrections coinciding with recessions. This means investors should expect a bear market, on average, once roughly every four years.

## Maintaining discipline is crucial

Market corrections tend to set off emotional responses for investors. When volatility increases, it is natural to believe that it might continue and/or that something should be done. The current environment has certainly tested the mettle of investors. But for those that have a well-devised investment plan, resisting the impulse to deviate from the long-term plan is important during the inevitable "cold stretches" in equity markets.

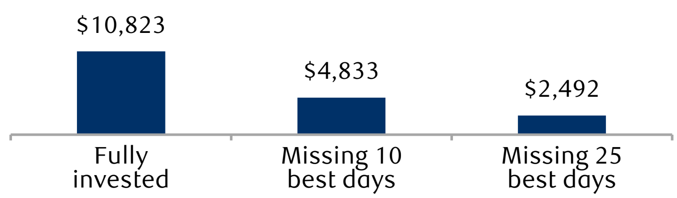
## Time in the market matters more

Precisely timing the market peaks and troughs requires three conditions: avoid selling as the market continues to move higher; sell at the top; and time the re-entry at the bottom. Even with a healthy dose of luck, the possibility of consistently fulfilling all three conditions across multiple market cycles is extremely low, especially when considering that, historically, the market's best days have often followed the sharpest drops. As illustrated in the following charts, the more suitable strategy may be to stay disciplined and fully invested, which can help keep investors on the trajectory towards achieving their long-term financial objectives.

## The cost of missing out

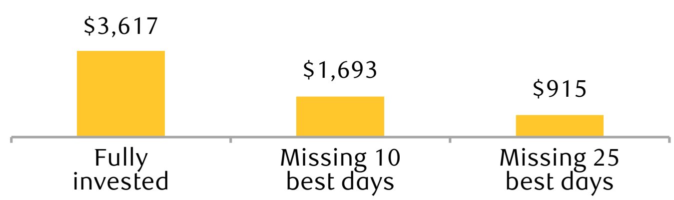
Invest for the long term, rather than trying to avoid the inevitable bad days

S&P 500: Growth of $100 invested Jan. 1, 1980

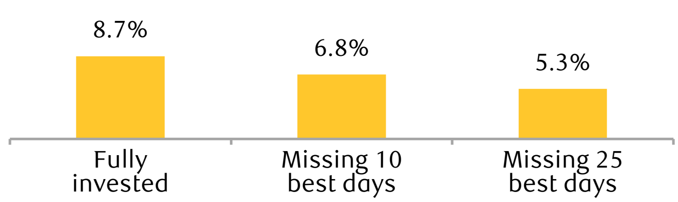



S&P 500: Annualized returns since Jan. 1, 1980


TSX Composite: Growth of $100 invested Jan. 1, 1980




TSX Composite: Annualized returns since Jan. 1, 1980




Source - RBC Wealth Management, Bloomberg; data through 12/31/22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## Author

**Joseph Wu, CFA**
Portfolio Manager
joseph.wu@rbc.com; RBC Dominion Securities Inc.


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|---|---|---|---|---|
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| Hold [Sector Perform] | 603 | 40.28 | 151 | 25.04 |
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