Investing during uncertain times

Navigating market volatility

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Market volatility is normal – but that doesn’t mean it isn’t stressful

Learning about market cycles can help you feel prepared for whatever the market brings. It can prevent you from making short-term emotional investing decisions that get in the way of reaching your long-term savings goals.

Understanding market cycles

Over time, our economy experiences highs and lows, these highs and lows are reflected in the stock market and in overall investment performance.

You may notice in strong economic periods the value of your investments go up. And, when the economy isn't doing as well, the value of your investments may go down.

These ups and downs are known as **market cycles**.

When we talk about volatility, it refers to the extent value goes up or down during these cycles.

More volatile investments or markets experience bigger swings in value, while less volatile investments and markets are more stable.

Lessons from history

There have been many times in our history when markets experienced big declines. While the causes of the declines were different – from political events to a pandemic – markets have always recovered.

Here are just a few examples you may recognize:

1963

JFK assassination
- Market decline of -2.8%
- Recovered in less than 1 month
- 1 year later it was up 23.9%

1974

Market crash
- Market decline of -47.0%
- Recovered 5.5 years
- 1 year later it was up 31.6%

1990

Desert Storm
- Market decline of -19.8%
- Recovered in 4 months
- 1 year later it was up 30%

2002

Dot-com bubble crash
- Market decline of -49.1%
- Recovered in 4 years and 6 months
- 1 year later it was up 33.7%

2009

Subprime mortgage crisis
- Market decline of -56.4%
- Recovered in 3 years and 11 months
- 1 year later it was up 68.3%

2020

COVID-19 pandemic
- Market decline of -34.3%
- Recovered in 5 months
- 1 year later it was up 78.6%

Source: MSCI USA Index (US$) Price Return Source: Bloomberg Finance L.P.

Investing mistakes happen when your emotions take the lead

While history tells us market declines are temporary, it can still be difficult not to panic.

The wise investment advice is to buy low and sell high. Yet, studies show the average investor gets excited, jumps on the bandwagon and buys a stock when it's performing well (in other words, they buy high). Then, when the price drops, that same investor often panics and unloads the stock (they sell low).

You can't afford to miss the best days

Pulling your money out has consequences.

Some investors try to time the market. Meaning, they try to anticipate when prices will go up or down so they can buy or sell at the most advantageous time. The problem with this strategy is that investors often get it wrong (predicting the future is difficult, if not impossible).

Using data from the S&P/TSX Composite Total Return index from 2005 to 2024, this graph shows how those who stayed invested came out further ahead of those who missed key weeks when there were market upswings.

Source: Morningstar Direct, daily returns of the S&P/TSX Composite Total Return Index from Jan. 1, 2005 to Dec. 31, 2024

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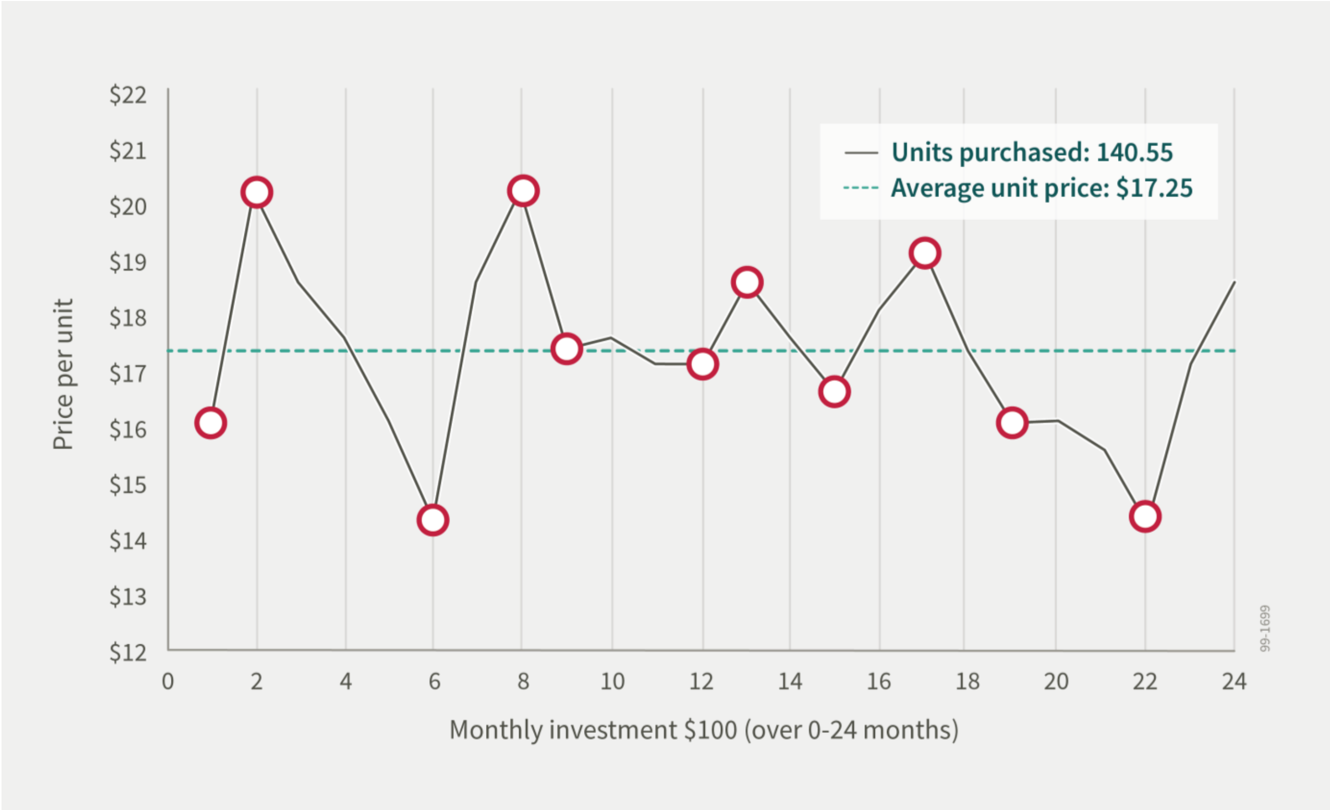
Don’t try to time the market…
Use a dollar-cost averaging strategy instead

Dollar-cost averaging sounds a lot more complicated than it is. It’s simply investing smaller amounts of money over time, rather than investing a lot all at once.

By investing your money at regular intervals, you’re avoiding the risk of investing all your money at the wrong time. Instead, the cost of your investment averages out over time.

This strategy can help you avoid making emotional investing decisions since your strategy doesn’t change regardless of price changes to the investment.



Example is for illustrative purposes only

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Your group savings plan can help you navigate market volatility

Automatic dollar-cost averaging

When you're participating in your plan, you're contributing to your savings every time you're paid. This means you're automatically using a dollar-cost averaging strategy.

Diversified investment options

Diversifying your investments can buffer the impact of market downturns. Your plan offers a selection of diversified investment funds, managed by world-class fund managers.

Saving for Life webinars

Learn more about saving and investing by attending a Saving for Life webinar.

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