Reuter Insight

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Turn Market Volatility to Your Advantage

In recent months we have seen continued market volatility and declining markets in Canada, the U.S. and around the world. Concerns regarding European debt, the U.S. economy, and markets have made it challenging for even the most disciplined investors to maintain a steady course.

What should investors do during this time of volatility? We suggest that you consider the following advice to manage a market decline.

1. Take a long-term approach.
Investment markets have cycles that include periods of growth as well as periods of decline generally every seven to ten years. In the past, there have been almost twice as many up years as down years. Since 1924, the S&P/TSX Composite Index has posted positive returns for a total of 64 years and negative returns for 23 years (Source: Canadian Institute of Actuaries and TSX).

While we expect volatility to continue in the markets, what we don't know is when the decline has run its course. History does suggest that following periods of decline, stock markets have the potential for periods of significant gains.

2. Stay with your current investment strategy during down times.
Disciplined investing works in all market conditions. When you selected your investments, you may have completed an Investor Style Questionnaire and selected an Asset Allocation fund or your own mix of funds. The choice of investments for your retirement savings was made in consideration of your tolerance for risk and timeframe until retirement.

Now is not the time to undo those carefully made plans. Moving out of investments when they are down in value not only locks in losses but also can result in missing the opportunity for potential recovery and long-term gains during the next cycle of growth.

Assuming that you are invested according to your risk tolerance, the best advice is to maintain the current investment mix. However, if you are closer to retirement or wish to reduce your exposure to market volatility, you may wish to invest future contributions accordingly.

3. Understand the benefits of dollar cost averaging.
Group plan members that continue to make regular contributions to a retirement savings program buy units of funds at all cycles of the market. During low cycles they are automatically buying units of funds at a lower cost. This results in the purchase of more units and can lead to greater gains over the long term.

Plan members are encouraged to review their investment strategy with a professional. You may review your plan by contacting Reuter Benefits at 1-800-666-0142 or via email at retire@reuterbenefits.com.