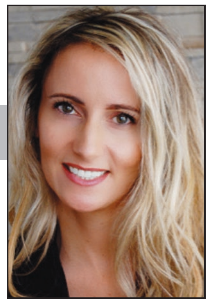
Panic Selling!

Managing Your Money



LYNN MacNEIL

If you have watched your recent investment statements with a sinking heart, I want you to know that I understand. I understand the feelings of fear and frustration that some people are experiencing when they look at their investment portfolios during these past months. If you have savings or investments, whether it be bonds, stocks, or cash, you have watched the value of your account decrease. Maybe you always get nervous when you see gyrations in your portfolio. Or maybe, this time, it's different. Maybe you have been investing for years and never blinked an eye through corrections, until this one. Age, life events, and other circumstances can change our perspective on this type of situation, causing anxiety where there was none previously. So, whether you are newly stressed over the bumpy ride, or always stressed about it, I'll try to provide some perspective and reassurance. Some of these insights come from the stellar Investment Strategy team of James Price from Richardson Wealth, and Craig Basinger from Purpose Investments.

The situation:

We are deep in a correction that spreads across multiple asset classes, including bonds AND stocks, which is uncommon. We can attribute this drop to inflation, quick interest rate hikes, overvaluations in the markets, slight slowing of the economy, the pandemic, the war, commodity prices, etc. It is possible I missed a few. Needless to say, it is a challenging period in which we are living.

The perspective:

Volatility is normal and healthy. Let's not forget that both bond and equity markets enjoyed above-average returns over the past few years. This was due mainly to a change in consumer spending during the pandemic, along with too much stimulus that was left in place for too long, and low-interest rates. With those factors now reversing, the somewhat inflated market is now deflating. While I won't say that bonds or stocks can't go any lower, I will suggest that we take a longer-term viewpoint. When we talk about investment return objectives, we always say "average" return – which takes the good years with the bad ones and averages out the return. When we average these past few "down" months into longer-term returns, most well-constructed portfolios would still be performing above average.

Corrections help reestablish "correct" pricing in the markets. In about 10 of the past 20 years, we have seen corrections of over 10% in the markets. That being said, equity markets rose overall in most of those past 20 years. As I write this in mid-May, I look at the numbers as of the end of April 2022.

Compare your portfolio returns to these. If you have a well-diversified portfolio, you should be experiencing much less of a drop in comparison, year-to-date.

- Canadian Market (TSX): –2%
- US Market (S&P 500): –13%
- US Tech (NASDAQ): –21%
- Europe (EURO STOXX 50): –11%
- Canadian long bonds: –18%
- US long bonds: –19%

The expectation:

When will the correction end? Nobody knows. What will end the correction? It's hard to say. Maybe the end to the war, or seeing inflation slow, or central banks easing off. The reality is that markets are an aggregate of investor behavior. When investors who are selling decide current prices are not worth selling at, and buyers come in attracted by lower prices, the tipping point occurs, and things turn around. This may coincide with a major news event, but really – it just happens when it happens.

On the positive side, investor sentiment is a good signal to indicate the end of a correction and it's pointing in the right direction. Valuations are also looking more attractive, and the VIX (a.k.a. the "fear index") is high. You may have heard the expression, "When the VIX is high it's time to buy. When the VIX is low it's time to go!" The ideal time to buy is when valuations are low and volatility is high. So, for those who have the stomach for it, there are great deals out there.

On the negative side, there will always be uncertainty out there in the world. At this time, it is still particularly high with the pandemic seemingly ending (but who knows), and the ongoing war in the Ukraine. The possibility of a recession is low for 2022 but the longer-term view is more concerning. This correction has been particularly tough because often during a correction, rebalancing opportunities are prevalent. However, with both stocks and bonds down, there has been almost nowhere to hide. Even cash is being eroded by this crazy inflation.

Opportunities:

A well-planned portfolio strategy, despite the limited opportunities to rebalance, will still be able to take advantage of some options. Next month I will discuss some worthy tax planning opportunities that are showing up nicely.

I am reminded of my dear client Sally who, before meeting me a few years ago, had panicked and sold at just the wrong time. After some sensible planning we were able to get her back on track. When I spoke with her last week, figuring she would be nervous about everything that was going on, she laughed and said "I am not making the same mistake again! I'm not nervous this time because I trust that you've guided me well up to now, and you're looking after things." So, reach out to your advisor if you are feeling the jitters.

During periods of increased volatility, the risk of making an emotionally induced mistake is heightened. Emotions are great to have but often get in the way when investing, leading to sometimes irreparable investment mistakes. So, if you are feeling short-term panic, try taking a longer-term perspective. And remember, this will pass and will soon be quickly forgotten.

Lynn MacNeil, F.PL., CIM®, is an Associate Portfolio Manager and Financial Planner with Richardson Wealth Limited in Montreal, with over 27 years of experience working with retirees and pre-retirees. For a second opinion, private financial consultation, or more information on this topic or on any other investment or financial matter, please contact Lynn MacNeil at 514.981.5794 or Lynn.MacNeil@RichardsonWealth.com. Or visit our website at www.EphtimiosMacNeil.com.

The opinions expressed in this report are the opinions of the author and readers should not assume they reflect the opinions or recommendations of Richardson Wealth Limited or its affiliates. Assumptions, opinions and estimates constitute the author's judgment as of the date of this material and are subject to change without notice. We do not warrant the completeness or accuracy of this material, and it should not be relied upon as such. Before acting on any recommendation, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. Past performance is not indicative of future results. Richardson Wealth Limited is a member of Canadian Investor Protection Fund. Richardson Wealth is a trademark of James Richardson & Sons, Limited used under license

For more tips and insights on managing your wealth, follow me on FACEBOOK @Richardson Wealth - Ephtimios MacNeil Wealth Management