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Successful Investment Strategies

Success in investing over the long-term isn't just about picking winners. The safest way to grow your wealth over the long-term is to invest in a portfolio that can navigate different market environments. This means spreading your investments over as wide a terrain as possible, minimising your exposure should your stake in any single sector, company or fund take a tumble. Putting your money in as many pots as possible can help to capture new opportunities when they arise, too. There may be chances to make strong short-term returns in individual sectors or companies – the recent surge in oil prices is a good example. But making bets on which stocks will perform well is a difficult game with uneven results. Even if your hunch proves correct, it's difficult to time any anticipated rise or plunge correctly.

By adopting a balanced diversified approach (which means avoiding concentration of your wealth in one single asset class), your portfolio stands a better chance of achieving a stable return over time.

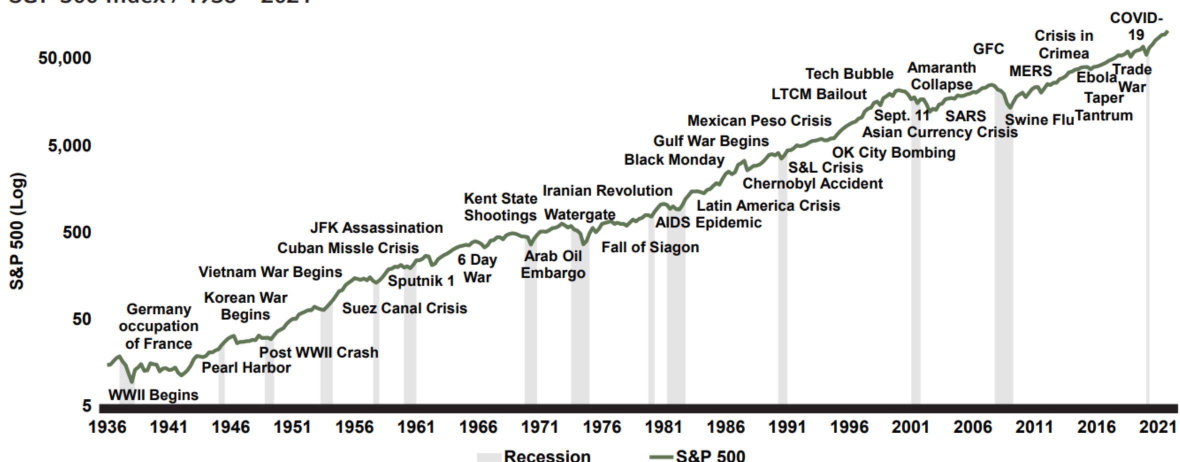
Managing Recent Market Volatility

So, is now the right time to invest? The answer is yes.

Whether the market is volatile or calm, it's always better to have your money invested and working for you. While investing is risky, and financial markets do go through negative periods, downturns are relatively short-lived and invariably followed by a significant rally that has more than made up for any previous losses. Of course, when markets get choppy it's normal to feel anxious about your hard-earned savings. No one wants to lose money. Uncertain markets may cause you to worry about your ability to fund your retirement or any other financial goal you may have. You may even be tempted to pull your money out of the market and move it into a safer investment, such as cash/deposits.

And right now, with inflation at multi-decade highs, a war between Russia and Ukraine, the likelihood that interest rates will rise, the upcoming U.S. mid-term elections, the appearance of new COVID-19 variants and other issues, it seems there are many reasons not to invest in the markets. But there will always be reasons not to invest in the markets. No matter what time frame you look at, there is always something going on that could present a threat to financial markets. The chart below shows the performance of U.S. stocks (represented by the S&P 500 Index) over the past 90 years. While past performance is not indicative of future returns, it does help to have historical context. Over the longer term even wars, virus outbreaks, currency crises and recessions become short-lived blips.

Resilience of the U.S. stock market / History of moving through difficult times



Source: St. Louis Fred & Morningstar Direct. S&P 500: Daily market return index as of 12/31/2021. Log: Lognormal scale.

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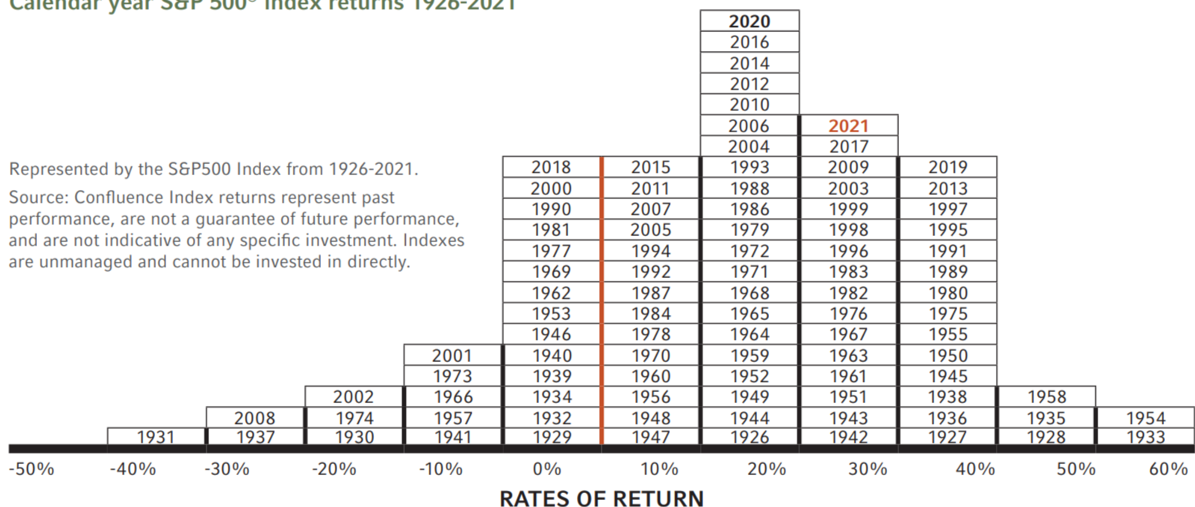
Volatility is normal

Let's face it financial markets are cyclical. Volatility is an inherent part of their nature. Different asset classes go into and out of favour. Geopolitics, major news from a key company, unexpected earnings results, changes in public policy, technical factors and any number of events can spark volatility. It is important to understand that markets go through cycles – and often take our emotions on a wild ride when they do. When investors react to volatility, they run the risk of selling just when the market hits bottom, and then the risk trying to get back in when the market is rising. Rather than fear volatility, here are three strategies to consider when markets are turbulent.

Take the long-term view.

Right now, we may be nervous about the war in Ukraine, soaring energy prices, supply-chain disruptions, the polarized political environment in the U.S., the COVID-19 pandemic, or any other geopolitical issue that's out there. But if we step back and take a longer-term view, we can see that the global stock markets have had far more good years than bad ones. For example, the US market has ended the year positive 74% of the time since 1926. Those are pretty good odds.



Stay invested

It is almost impossible for anyone to accurately predict the market's short-term moves. While there are signals that traditionally have pointed to a downturn – a flattening of the yield curve has generally preceded a recession, for example – but the exact moment when the market begins its decline is extremely hard to pinpoint. And market triggers can be unexpected, especially in the geopolitical arena. You may not realise the market is retreating until it has already declined significantly and may not realise the market is in an upward trend until after you have missed the opportunity for gains. So, trying to "time" the market is virtually impossible and getting it wrong could cost you. Even missing the best 10 days over a 10-year period has a significant impact on returns and those "best days" can just as easily fall in the middle of a bear market as they can during a sharp rally. Staying in the market also allows you to take advantage of the power of compounding. Time is your best ally for harnessing the power of compounding in your retirement portfolio. Even a small nest egg, when created early, can become a large one over the years as your investment gains build.

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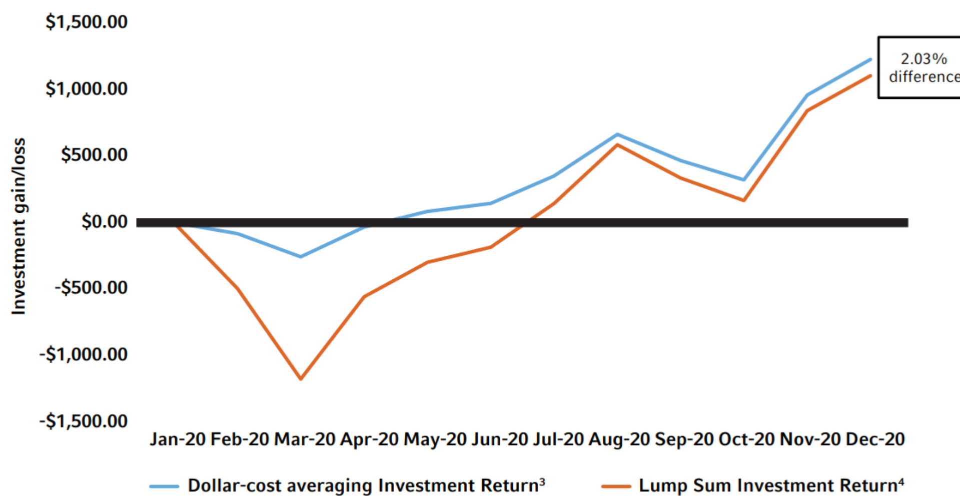
Make volatility work for you

Volatile markets can also provide the opportunity to buy low and sell high. The problem is – how to you know when the market is going to go down and when it is going to go up? Markets are notoriously unpredictable and even during bear markets there can be days when markets spike higher. The opposite is true in bull markets. One way to take advantage of market volatility is through dollar-cost averaging (DCA). This strategy takes the emotion out of investing and ensures you stay in the markets through thick and thin. The way it works is you invest equal amounts of money on a regular schedule, over a chosen time period. You decide how much you want to invest, how often and for how long. Dollar-cost averaging does not assure a profit or prevent a loss when markets are declining, and you need to be prepared to stick to your plan when market prices are low. But as you can see from the chart below, which shows the difference between making a lump-sum investment and dollar-cost averaging in a volatile year such as 2020, DCA can help smooth out your returns and can potentially provide higher return.



Source: Russell Investments. Based on a hypothetical investment of $6,000 in the S&P 500 Index.

The bottom line

There's no doubt about it – investing is risky. But as noted above, the odds are in your favour IF you maintain a long-term view and stick to your plan. As well, a portfolio that contains a broad mix of globally diversified stocks and bonds will likely be less volatile than one that is highly concentrated in an asset class or sector or region. That's because losses in one area are generally offset by gains in another. Stocks and bonds tend to move in opposite directions, and geopolitical events impact different regions in different ways. Most importantly, a well-thought-out investment plan can help give you a sense of security to ride out the volatility.