Invest at Market Highs? Time is the Great Equalizer

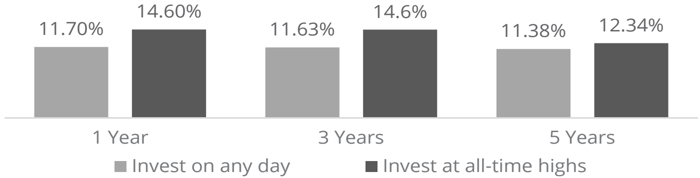
When is the best time to put new money to work in the markets? After equity markets reached new highs throughout 2021, some investors may feel hesitant. However, a recent *Forbes* article attempted to debunk the belief that investing at market highs is likely to lead to lower returns. Using historical S&P 500 Index data, it suggests that the returns for investing at all-time highs have been close to the average (chart 1). Of course, we should never discount the opportunity to invest at lower prices: lower valuations, higher dividend yields and better price points can help to enhance overall wealth. This is why many investors embrace market corrections when they occur.

For investors concerned about buying at highs and then seeing a decline, it's worth repeating that history tends to favour long-term investors. The likelihood of negative returns reduces significantly as a holding period increases (chart 2). Time is the great equalizer!

2022 TFSA Dollar Limit: **$6,000**, bringing the total eligible lifetime contribution amount to $81,500. Do you have TFSA contribution room sitting idle?

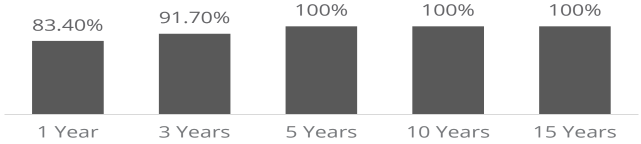
Systematic investing programs can also help to take emotion out of the investing decision. After all, being invested can be one of the best ways to generate wealth over the longer-term.

Chart 1: Average Annual Returns in S&P 500 Index, 1988 to 2020



Sources: S&P 500 TR Index, based on www.forbes.com/sites/kristinmckenna/2021/03/05/should-i-invest-when-the-market-is-high-dispelling-the-buy-low-sell-high-myth/

Chart 2: % of Positive Returns, Diversified Portfolio 1980 to 2020



Sources: Based on 20% S&P/TSX Composite Index, 20% S&P 500 Index, 20% MSCI EAFE Index, 40% FTSE Canada Universe Bond Index. Rolling periods from Dec. 1979 to Dec. 2020.