Keeping Perspective During Volatile Times

Recent market volatility has prompted some investors to rethink their perspective on risk. However, reacting to short-term market fluctuations is not usually advised. Instead, we continue to focus on the importance of having a plan in place with a view for the longer term, making prudent adjustments and rebalancing a portfolio where required. Here are some things to consider to help keep perspective during volatile times:

Why we rebalance portfolios: helping to avoid market timing — Rebalancing an investment portfolio involves adjusting the proportion of asset types to ensure it reflects your continuing goals. This is done because, over time, the value of the securities that make up your portfolio can rise and fall at different rates. This will change the asset allocation, which has been established to reflect your personal risk profile, goals and time horizon.

Often, rebalancing involves trimming winners to get back to the target asset allocation level. One of the virtues of rebalancing is that it helps to take the emotion out of the investing decision-making process. The rebalancing decision should occur when the portfolio's balance is not in check, and not in response to the markets being under pressure. This can allow investors to better achieve the objective of selling high.

Don't discount diversification — Diversification continues to remain an important tool in an investor's portfolio, helping to manage risks and allow for more consistent longer-term results. Consider that a well-diversified portfolio often means that, by nature, the value of some components of the portfolio may fall when others may rise.

Cash continues to have a cost — Periods of volatility are not a time to run and hide. For investors, while having some cash on hand to take advantage of new investment opportunities is wise, holding too much may not make sense in these days of low interest rates and higher inflation. The low returns achieved through savings accounts or Guaranteed Investment Certificates are offset by just moderate inflation levels, so sitting on cash is likely to yield a negative real rate of return.

Volatility may bring opportunity — Alongside the earnings recovery and growth of many companies, volatility has helped to temper valuations. Consider also that high uncertainty can sometimes be the buyer's ally. Periods of downward volatility may offer the opportunity to purchase investments at relatively lower prices. In the words of renowned investor John Templeton: "invest at the point of maximum pessimism."

Don't overlook your time horizon — It may be easy to become impatient with investments that perform below expectations in the short term, especially after last year's equity market performance in which many investments continued their upward advance with little interruption. Returning volatility reminds us that patience can be one of the longer-term investor's great virtues. History has shown that over shorter time frames the markets can often be unpredictable, yet over the longer term they have continued to advance. Don't overlook the profound impact of time in the markets.

Have confidence in your plan — Volatility should be a reminder that growth does not occur at a steady rate. Your plan has been put in place with the objective of creating a portfolio that can weather the inevitable short-term storms to deliver longer-term returns. We continue to monitor your investments during these volatile times, making prudent adjustments where necessary to account for changes in the marketplace. Have confidence in your plan and allow your assets to keep working hard for you.