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Reasons to love market volatility!

Extract from our September 2008 Newsletter

No doubt about it, equity markets have been volatile lately. But is that a reason to sell your stock portfolio and stash your cash under the mattress?
Absolutely not. As painful as market volatility can be, there are some very good reasons to love it. Yes, that's right: love it. Contrary to popular belief, not everything about market volatility is bad. Allow us to explain:

1. ***Bear markets are big sales:***
If you're like most Canadians, you're probably not in the habit of going to the store and asking to see the most expensive items. More likely you read the weekly flyer and look for the bargains. That's not a whole lot different from the way you should approach investing. During periods of market volatility, opportunities can arise to purchase strong, well-managed companies with a bright future at artificially low prices. Although speculation is not a wise thing, especially for the amateur investor, an opportunity for long-term value investing can be very worthwhile.

2. ***You're probably not finished buying equities yet:***
Even if you're retired and you rely on your portfolio for income, you still need a portion of your portfolio invested in equities to keep growing your assets and make them last longer. So, if you know you'll be investing in equities for several years to come, the little 'valleys' that come with normal volatility represent important buying opportunities for you. In fact, buying good companies at their most reasonable prices is a strategy used by many mutual fund managers. That's why a good mutual fund may be a wise purchase after a mild market correction (as opposed to the onset of recession or other major downward trend in the economic cycle).

3. ***Market volatility reminds investors about risk***
Whenever the stock market experiences a long-running bull market, some investors can lose their perspective on risk. However painful it may be, market volatility helps remind investors about the importance of understanding one's risk tolerance. Market volatility is a natural pause button for your portfolio, allowing you to analyze your current mix of investments and compare it to your ideal mix. Rarely is it a good idea to sell an investment as a knee-jerk reaction to a downturn, but rebalancing a portfolio according to plan can improve risk-adjusted returns in the long run.

4. ***Bear markets help us focus on what really matters***
Perhaps most important, market volatility forces us to think about what we're really doing when we invest. The end goal of investing isn't swinging for the fences. Instead, we save and invest to accomplish significant life goals: higher education for our children, secure retirement for ourselves, and good care in our final years. These goals never change, regardless of what the market does in the next three, six, or even twelve months. Market volatility makes it a little easier to temper our ambition.

And that's a good thing!

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