TOOL KIT STRATEGY

How to weather stormy markets – stay invested

Looking back over the last 40 years, every decade has experienced a crisis or two that has affected the markets. In the 1970s, it was the oil embargo and the energy crisis. In the 1980s, it was Black Monday – the market crash caused by program trading and derivatives. The 1990s saw the Gulf War, the Asian crisis and the demise of Long Term Capital Management.

Since the turn of this century, there has been the bursting of the dot.com bubble, terrorist attacks on the World Trade Centre, the Iraq war and the current U.S. financial crisis.

Every time, global markets have rebounded and went on to produce solid long-term gains. Markets will always fluctuate, but the longer you stay invested, the less affected you are by short-term volatility.

To show this, we looked at the performance of a $10,000 investment over three decades – the 1970s, 1980s, and 1990s – and assumed four strategies:

- do nothing – stay invested
- stop/loss – when the market loses 25%, move to a guaranteed investment certificate
- "average down" – add 10% to the investment at the bottom of the market
- shift to a GIC at the bottom of the market.

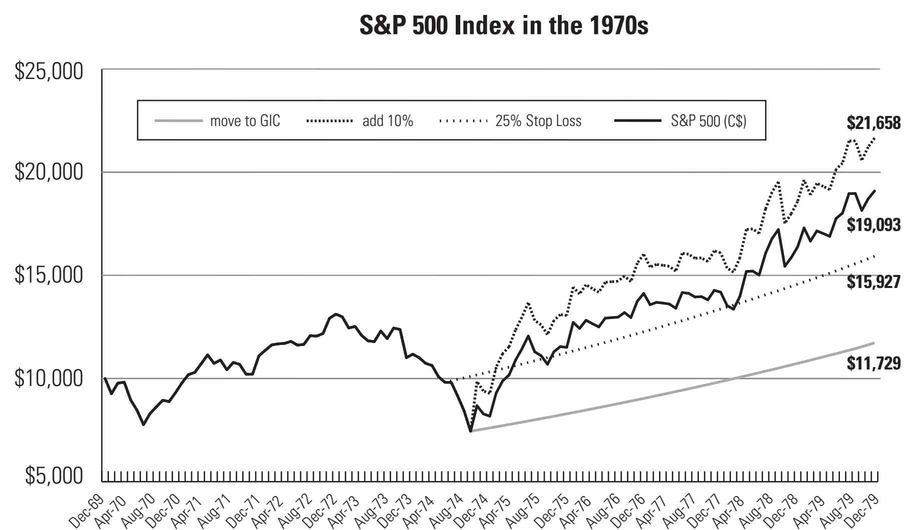
The 1970s

Despite a 43% decline in the S&P 500 Index (in Canadian dollars) between December 1972 and September 1974, if you had invested $10,000 at the beginning of 1970, your portfolio would have gained 91% during the decade by staying invested.

If you had "averaged down" at the bottom of the market, your investment would have risen 97%.

With the stop/loss strategy your investment would have gained only 59%.

If you had moved your investment to a GIC at the bottom of the market, you would have seen your portfolio rise only 17% from the beginning of the decade.



CI Investments

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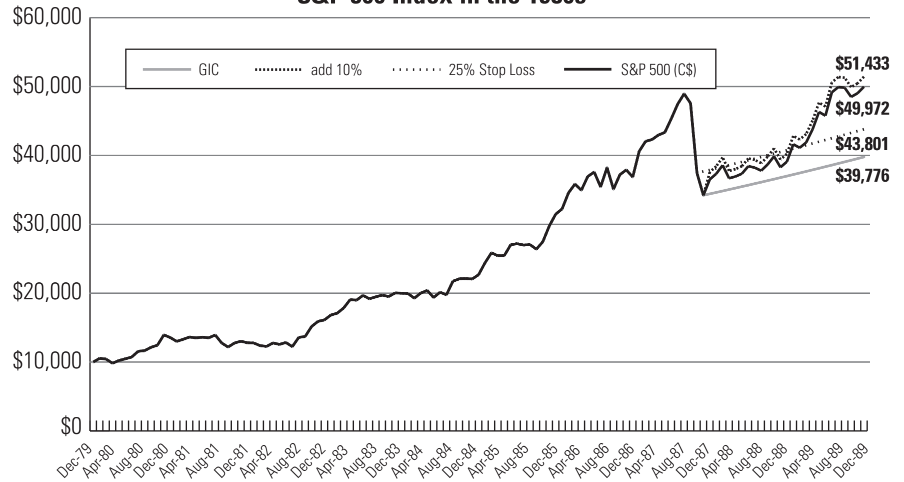
The 1980s

Much like the 1970s, the 1980s saw one large market correction – in 1987. Despite a 30% decline over three months, if you had invested $10,000 at the beginning of the decade, your portfolio would have experienced a gain of 400% by the end of the 1980s by staying invested.

If you had added an additional 10% to your initial investment at the bottom of the market, you would have been ahead by an extra 13%.

If you had exited the market after a 25% loss, you would have still had a 300%-plus increase, but you would not have reached your previous highs.

If you had moved to a GIC at the market bottom, your investment would have risen 300% from the beginning of the decade, but most of those gains would have been earned in the market prior to 1987.



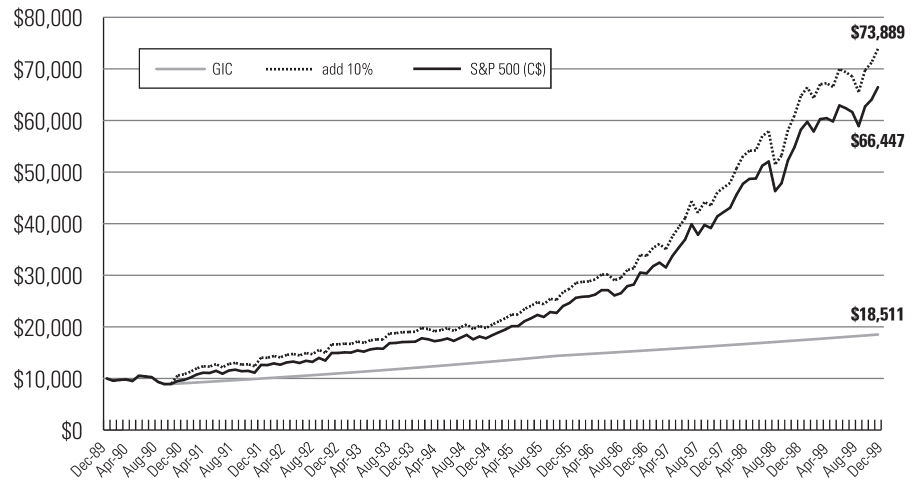
The 1990s

There were two small market corrections in the 1990s. The first, between July and September 1990 when the market declined 13%, and a second between July and August 1998 when the market declined 11%. If you had invested $10,000 at the beginning of the decade, and stayed invested, you would have experienced a 560% gain.

If you had "averaged down" in 1990 and added another 10%, you investment would have gained an additional 75%.

Since the loss was only 13%, the stop/loss strategy does not apply.

If you had moved to a GIC at the bottom of the market in 1990, you would have seen your portfolio rise 85% from the beginning of the decade.



Historical figures based on S&P 500 Index in Canadian dollars and an average 5-year GIC rate.

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