

TRYING TO TIME THE MARKET CAN BE COSTLY

The market volatility in this recent downturn has been unprecedented. There have been as many days with a 5% or greater change in the value of the major equity indexes in the past few months as there were in the previous 50+ years.¹

Understandably, investors are very concerned as they watch their portfolios tumble in value during this global economic recession. However, now is not the time to be reacting to these short-term changes in the markets. More than ever it's important to revisit your long-term plan. If your goals and objectives haven't changed then your plan shouldn't change either.

One of the most common investor mistakes made in challenging periods is trying to time the market. Each of us reaches a point where we've had enough. The bad news in the media, the markets, and in our investment statements reaches a tipping point and we decide to get out. Our strategy is to move to a much more conservative investment, or even cash, with the idea of jumping back in when things improve. However, by doing this, we typically miss out on the best days of the market recovery. In fact, by missing the 10 best days in the recovery your long-term returns would almost be cut in half relative to someone who stays fully invested.² This is because the major stock indexes are leading indicators, as such many stocks recover well before the economic news turns positive. For example, the S&P 500 U.S index has recovered an average of 8 months before unemployment reached its peak in every major downturn since 1949. In that time period before unemployment peaked, the index returned an average of 25.8%.³

It's important to look beyond the media headlines and today's market news and focus on the goals, objectives, timelines, risk tolerance etc. that formed the foundation of your long-term investment strategy before this recent downturn.

Many studies have proven that waiting on the sidelines and trying to time the market can be detrimental to your portfolio's returns.⁴ Sticking to a long-term investment strategy with a portfolio of well-diversified asset classes is the best way to maximize your investment returns.⁵

Certainly the market volatility will continue in 2009 and we may even test new lows in certain indexes and

asset classes, however, the long-term positive trends are undeniable. Even with the dismal returns the major world equity indexes suffered in 2008, they still provided higher returns than T-Bills, for example, over the previous 25-year period.⁶

The world governments have reacted quickly and decisively to this global crisis. It's only a matter of when these stimulus packages take hold and restart the world economy. Is your portfolio positioned with your long-term investment strategy in mind or are you reacting to the news in the short term? Choosing the latter could have a negative impact on the long-term prospects for your portfolio.

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¹ Source: S&P, Bank of Canada, MSCI and ATBIM

² Why the smart money remains fully invested (08/08) InvescoTrimark

³ Source: S&P, BLS, NBER

⁴ AIMR recommends 10 "New Year's Resolutions" for Investment Community (12/02) CFA Institute

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⁶ Source: S&P, MSCI, PCBond, Bank of Canada