RBC Global Asset Management

Staying the course

Strategies to help you maintain perspective through all types of markets

Daily market fluctuations highlight why a combination of discipline and perspective is key to reaching your investment goals. One way to achieve this fine balance is by having a plan and sticking to it through all types of market conditions. This may sound easy, but investors are typically put to the test once or twice a year. Veering off course from a carefully thought-out plan can turn a temporary loss of confidence into a realized loss on an investment portfolio.

Here are five strategies that can help you reduce the impact of market fluctuations and help you reach your long-term goals:

1 Use time to your advantage

2 Maintain discipline

3 Regularly rebalance

4 Diversify your portfolio

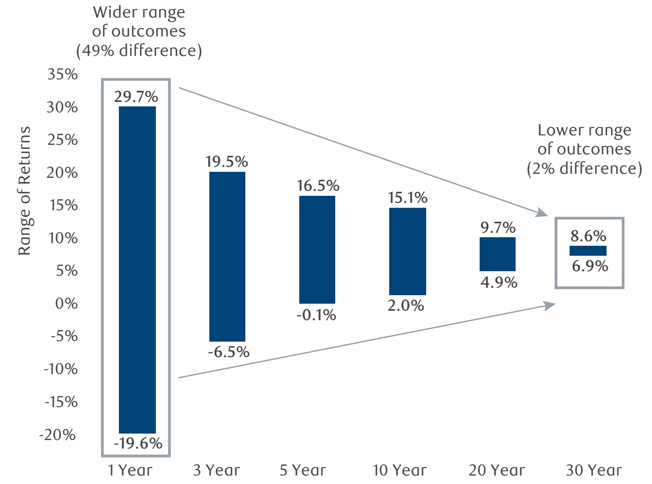
5 Invest regularly

1 Use time to your advantage

Investors who maintain perspective and stay mindful of their investment time horizon have a better chance of reaching their investment goals than those who react to short-term market fluctuations.

Staying invested and trying not to "enter and exit" the markets when volatility increases can help reduce fluctuations over the long term. The longer an investment is held in a portfolio, the less chance it has of incurring a negative rate of return. This is because fluctuations in value tend to smooth out over time as the impact of market volatility diminishes. Moreover, years of strong equity markets can outweigh periods of decline, resulting in long-term returns that outperform other asset classes.

The volatility of a diversified portfolio decreases over time



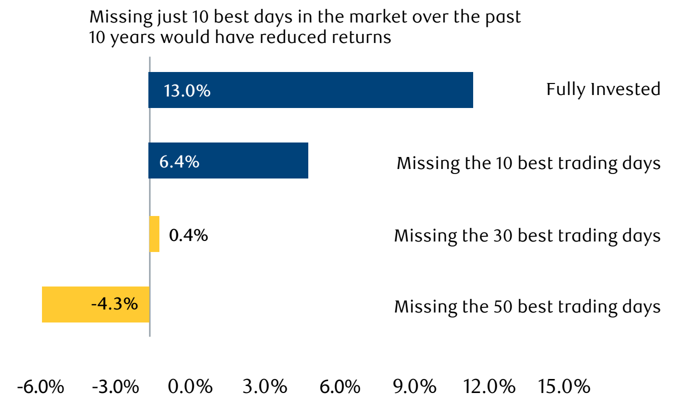
Rolling 1-, 3-, 5-, 10-, 20- and 30-year average annual returns from January 1989 to December 2024. All returns are total returns in Canadian dollars, unless otherwise noted. Diversified Portfolio represented by 2% Cash, 38% Fixed Income, 15% Canadian Equities, 25% U.S. Equities, 15% International Equities and 5% Emerging Markets Equities. Cash represented by FTSE Canada 30 Day T-Bill Index; Fixed Income represented by FTSE Canada Universe Bond Index; Canadian Equities represented by S&P/TSX Composite Index; U.S. Equities represented by S&P 500 Index; International Equities represented by MSCI EAFE Index; Emerging Markets represented by MSCI Emerging Markets Index. Source: Bloomberg, RBC Global Asset Management.

2 Maintain discipline

Reacting to short-term market "noise" by making dramatic portfolio changes, like moving in and out of the markets, can have a negative impact on achieving your long-term investment goals. History shows that by maintaining discipline and perspective during market downturns, patient investors have been rewarded when markets returned to an upward path.

As market volatility increases, investors have a natural tendency to want to move into safer investments, hoping to avoid further losses. However, this move can result in needlessly locking in losses on investments that, given time, are likely to recover. A key to overcoming this tendency is to refrain from trying to time the market. Selling at the wrong time and missing just a few days of a market recovery could have a significant long-term impact on your portfolio.

Why it's best to stay invested



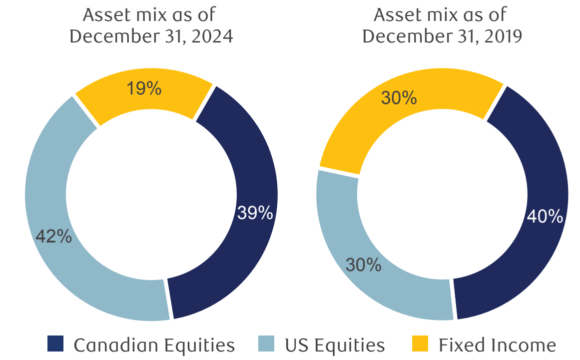
Based on the annualized returns of the S&P 500 Total Return Index for 10 years, ending December 31, 2024.
Source: Bloomberg, Morningstar, RBC Global Asset Management.

3 Regularly rebalance

Market fluctuations can often cause a shift in how your assets are divided in your portfolio (commonly known as portfolio drift), leading to a very different asset mix – and investment experience – than originally intended.

Rebalancing is one of the more effective ways to stay on track to reach your investment objectives. Not only does it help keep your portfolio aligned with your investment goals and risk tolerance, it also gives you the opportunity to lock in gains from one asset class and redeploy them to other asset classes that have become relatively inexpensive. Investment options like balanced funds that are regularly rebalanced and adjusted tactically to take advantage of shorter-term opportunities without losing sight of the long-term strategic allocation.

The impact of portfolio drift



Canadian equities: S&P/TSX Composite Index. Fixed income: FTSE Canada Universe Bond Index. U.S. equities: S&P 500 Index. Source: RBC Global Asset Management.

4 Diversify your portfolio

Diversification, long considered the golden rule of investing, remains key to help reduce portfolio volatility and risk.

Diversification means including in your portfolio a combination of investments from different asset classes, including cash, fixed income and equities, as well as different industry sectors, geographic areas and investment styles. Financial markets do not move in concert with one another and individual asset classes will perform differently in any given year. At any time, one asset class may be leading the market, while the others lag.

Diversification can help reduce the impact of market volatility on your overall portfolio by combining assets that react differently to changing market conditions. As the chart to the right shows, it can be difficult to predict which asset classes will lead the market each year and which ones will underperform.

A strong case for diversifying your investment portfolio

2020	2021	2022	2023	2024
US Equities 16.5%	US Equities 27.5%	Cash 1.7%	US Equities 23.3%	US Equities 36.2%
EM Equities 16.4%	CDN Equities 25.1%	CDN Equities −5.8%	INTL Equities 15.4%	CDN Equities 21.6%
Balanced 10.0%	Balanced 11.0%	INTL Equities −8.5%	US HY Bonds 13.5%	EM Equities 17.1%
CDN Bonds 8.7%	INTL Equities 10.2%	Balanced −10.4%	Balanced 12.9%	Balanced 16.8%
US HY Bonds 6.2%	US HY Bonds 5.4%	US HY Bonds −11.2%	CDN Equities 11.8%	INTL Equities 13.1%
INTL Equities 6.1%	Cash 0.1%	CDN Bonds −11.7%	EM Equities 7.2%	US HY Bonds 8.2%
Global Bonds 6.0%	Global Bonds −2.3%	US Equities −12.4%	CDN Bonds 6.7%	Cash 4.7%
CDN Equities 5.6%	CDN Bonds −2.5%	Global Bonds −13.2%	Global Bonds 5.6%	CDN Bonds 4.2%
Cash 0.6%	EM Equities −3.4%	EM Equities −14.5%	Cash 4.8%	Global Bonds 1.4%

All returns are total returns in Canadian dollars, unless otherwise noted. Source: RBC Global Asset Management Inc. as of December 31, 2024.

Fixed income				Equities				
Cash Cash	Global Bonds Global Bonds	CDN Bonds Canadian Bonds	US HY Bonds U.S. High-Yield Bonds	CDN Equities Canadian Equities	US Equities U.S. Equities	INTL Equities International Equities	EM Equities Emerging Market Equities	Balanced Balanced Portfolio
FTSE Canada 30 Day T-Bill Index	FTSE World Government Bond Index (CAD Hedged)	FTSE Canada Universe Bond Index	ICE BofA US High-Yield BB-B Index (CAD Hedged)	S&P/TSX Composite Index	S&P 500 Index	MSCI EAFE Index	MSCI Emerging Markets Index	60% Equity / 40% Fixed Income

Balanced Portfolio represented by 2% Cash, 38% Canadian Bonds, 15% Canadian Equities, 25% U.S. Equities, 15% International Equities and 5% Emerging Market Equities.

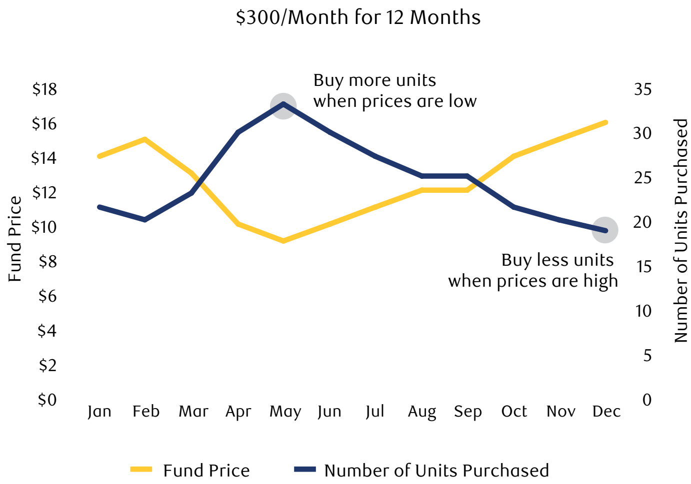
5 Invest regularly

Investing a fixed amount on a regular basis ensures that your investment strategy remains a priority through all types of market conditions.

By contributing smaller amounts of money to an investment plan on an ongoing basis (bi-weekly, monthly), regular investing acts as an anchor to help you maintain discipline when market conditions become volatile.

Regular investing also provides the opportunity to help smooth out returns over time, ultimately reducing overall portfolio volatility. This is achieved because investing a fixed dollar amount on a regular basis gives you a chance to buy more investment units when prices are low and fewer units when prices are high, thereby producing a more level investing experience over the long term.

Investing regularly in a fluctuating market



Source: RBC Global Asset Management Inc. For illustrative purposes only.

WHERE DO YOU GO FROM HERE?

The five strategies outlined above can help you stay focused and feel confident about reaching your long-term investment goals. Talk to your advisor about these strategies to help ensure you stay the course and maintain confidence through all types of markets.

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