RBC Global Asset Management

From the desk of Sarah Riopelle: Staying the course during periods of volatility

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The uncertainty and volatility of the past month has been unsettling for many, and my family is no exception. Several of my family members (who will remain nameless!) have sought my advice on how best to ride out the storm. Each is at a different stage of life and has unique investment needs, meaning they have distinct risk tolerances and time horizons. They are all feeling the pain of the market volatility in much the same way – concern and anxiety. They want to know what is happening, why it is happening, when and how it will end, and if they should be doing something with their investments. In one conversation in particular, the individual was looking at how much their portfolio is down. They didn't think they could take the strain any longer, so wanted to rebalance their portfolio to something more conservative (which would ultimately mean selling stocks and buying bonds).

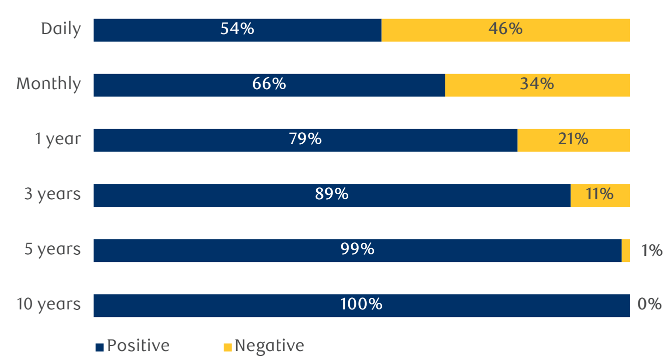
While I don't have all of the answers to their questions and I am not in a position to provide them with any advice on their individual investment plans (that's why they have an advisor!), their questions did get me thinking about a few things.

Now is not the time to be abandoning investment plans...

There is no question that these are stressful times. I am not immune to those feelings of uncertainty as I sit in my home office watching the markets and managing the funds. However, I strongly believe that making changes to investment plans in the middle of a crisis is not a good idea. Concern and anxiety are not a good recipe for making decisions that will impact you over the long term. In fact, it is now more important than ever that you stick to the plan that you diligently prepared alongside your advisor.

I am reminded of the chart below, a version of which I have used in recent articles and presentations. The day-to-day return of RBC Select Balanced Portfolio can go either way – 54% of days are positive and 46% of days are negative. But as you look at longer time periods, the likelihood of a positive return increased. So while the daily volatility that we are experiencing in markets is unprecedented, history gives us some comfort that we can get through this, as long as we are invested in a well-diversified portfolio and we stick to our long-term investment plans.

Historical odds of each holding period being positive

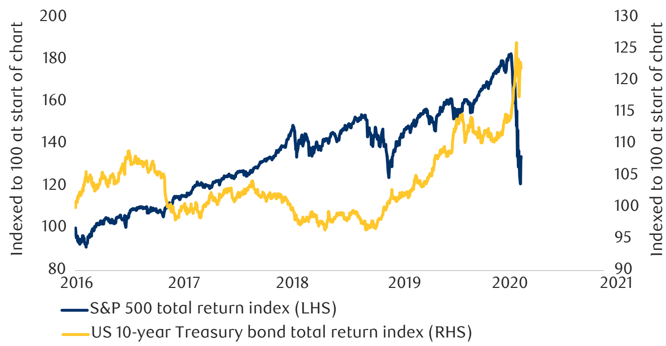


Note: RBC Select Balanced Portfolio, Series A. Daily returns are based on time period of Jan. 01, 2000 to Feb. 29, 2020. All other periods are based on Jan. 01, 1987 to Feb. 29, 2020. Source: RBC GAM

...especially if it means selling stocks and buying bonds

As I mentioned earlier, one family member that I spoke to wanted to move their asset mix to a more conservative approach, meaning more bonds and fewer stocks. But to get there, they would have to sell stocks that are already down significantly and buy government bonds when prices are at historic highs and yields are at historic lows. While I cannot gauge whether their chosen risk profile is appropriate, I can suggest that now is perhaps not the best time to be making significant changes to their asset mix and they should speak with their advisor to go over their investment plan.

Stocks and bonds cumulative return indices

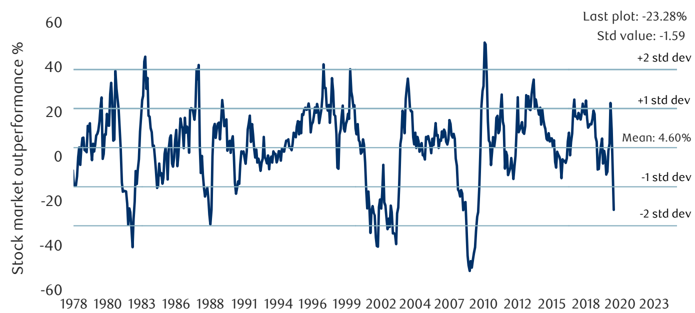


Note: As of March 25, 2020. Source: RBC GAM

In fact, we believe that stocks are especially attractive relative to fixed income, so we have been opportunistically selling bonds and buying stocks, the exact opposite trade of the one described above.

1-year U.S. stock and bond performance

S&P 500 total return minus Bloomberg Barclays U.S. Treasury total return



Note: As of March 25, 2020. Source: RBC GAM

Being aware of how your emotions can impact your investment decisions and tempering your reactions during volatile markets can help you to avoid poorly timed changes to your investment plan. This is sometimes easier said than done as the bad feelings that you get from losing money on your investments far outweigh the good feelings that you get from gains. However, if you invest in a well-diversified portfolio and stick to your long-term financial plan, a down market should not be a personal financial crisis.

Disclosure

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