Turn market volatility to your advantage

The month of September 2008 can be summed up in one word: volatile. As the ripple effect of the U.S. credit crisis intensified, hardly a day went by without unsettling news headlines about the state of the financial markets. The negative news caused headaches and sent the world financial markets on a wild roller-coaster ride.

It’s easy to invest in a growing market like the one we’ve enjoyed for the last several years. We tend to forget that there will be times when the markets aren’t nearly as good. This is one of those times. As market volatility continues, it’s important to remain calm and focus on your long-term investment goals.

What happened in the financial markets?
The shakeup began with the U.S. sub-prime mortgage woes of summer 2007. The credit crisis deepened in mid-September 2008 as U.S. investment bank Lehman Brothers declared bankruptcy, U.S. brokerage Merrill Lynch was taken over by Bank of America and U.S. insurer American International Group (AIG) sought a bailout from the U.S. Federal Reserve. The month ended with the TSX/S&P plunging over 800 points and the Dow Jones dropping over 700 points after news that a US $700 billion bailout plan failed to pass through Congress on the first attempt.

The global markets are integrated in many ways. The U.S. credit crunch has had an impact on the rest of the world to varying degrees. The world financial markets have mimicked the U.S. market’s yo-yo pattern. The tightening credit market has also left many European banks seeking government bailouts.

What effect has the credit crisis had on Canadian markets?
There’s no doubt that when the U.S. economy suffers, Canadians feel the pain. However the credit crisis in the U.S. hasn’t had a huge effect on Canadian financial markets, since the Canadian economy is heavily influenced by the price of oil and other commodities. It’s important to note that:

- Some Canadian banks and insurers have much less exposure to the sub-prime market in the U.S. than their American counterparts.
- The Canadian real estate market is much more financially sound than our southern neighbours.
- Canadian banks are relatively strong due to their solid deposit bases and the regulated commercial banking system that’s in place in Canada.

What does this market volatility mean to you?
During an uncertain market like this, it’s easy to see why you may be concerned about how market events could affect your investments.

Market volatility is a normal part of economic cycles. It presents an opportunity to invest in stock or other market based investments at discounted prices. If your investment portfolio is based on your risk tolerance and properly diversified across many sectors, investment styles and geographic regions, these short-term events will have little, if any, effect on your long-term retirement and savings goals.

Disciplined investing works in all market conditions
Disciplined investing pays in volatile markets. When you made your investment decisions, you may have completed the Investment personality questionnaire and selected an asset allocation fund or your own mix of funds from the investment options carefully chosen by your plan sponsor and their advisors. You may have spent time to spread your investments across different asset classes to minimize your risk.

Now isn’t the time to undo those well-conceived plans.

One way to keep on track towards your retirement and savings goals is to revisit the Investment personality questionnaire regularly and make adjustments if your plan isn’t aligned with your risk tolerance. You can complete the questionnaire on GRS Access, through your plan sponsor or call Access Line for a copy. Your personal financial security advisor is also a great resource for information and guidance if you feel your investments don’t match your personal risk tolerance.

You may be frustrated with the markets and wondering what to do next. Remember that, historically, there have been a variety of major events that have had a dramatic short-term impact on the markets. Looking back, these are now mere blips on financial market radars. Generally, those who stay invested are typically rewarded in the long run.

If you have any questions, please call Access Line at 1-800-724-3402 and speak with one of our client service representatives, Monday to Friday from 8 a.m. to 8 p.m. ET.