Canaccord Genuity Wealth Management

Financial Focus

Becker Orr Wealth Management

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Sticking to a Financial Plan

By Clinton Orr

It is important to have a financial plan. A well -constructed plan brings all the areas of your financial life together and ensures they are working towards the same goal. However, unless the plan is properly implemented, it won't be much good. Our investment portfolio is part of our overall financial plan and in times of market turbulence there is a temptation to drastically alter our investment strategy, which could impact the rest of our financial plan. The Coronavirus has temporarily turned the stock markets upside down, most folks have at least part of their investment portfolio in the stock market. With all the turbulence I imagine many people are nervous and are considering changing their investment approach. Well, we will dive into a bit of data on the topic in hopes it can provide some clarity and help people stick to their plan.

No one likes to see their portfolio decline in value, it is a horrible feeling, we just want the decline to stop. When the stock market gets turbulent a natural emotional reaction is to want to pull the money out and take shelter. Often when we sell, we tell ourselves we will get back in when things settle down. While that action brings a feeling of emotional relief in the short term it usually ends up hurting us in the long run.

J.P. Morgan released their 2020 retirement guide in March, part of it included a study on that very topic. J.P. Morgan looked at US stock market data from January 2000 to December 2019. During that 20-year period, according to their data, if you invested in the US market and just left the money alone you averaged 6.06% per year. If you were out of the market and missed the 10 best days, your average return dropped to 2.44%. Just 10 days out of a 20-year period and your return is substantially lower. If you were out of the market for the 20 best days, your return drops to a dismal 0.08% per year. Think about that for a moment, in a 20-year period if you miss just 20 days, the 20 best days in the stock market, you essentially don't make any money.

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Here is the catch, the bulk of the really big up days in the market follow the down days. We saw this recently, after a couple of rough weeks, on March 24 both the US and Canadian stock markets soared, double digit gains in one day. The data tells us that most of the best days in the stock market are close to the worst days, the best days are part of the recovery. When folks pull their investments, they usually don't reinvest at the right time and miss the recovery.

Making big changes to your investment strategy in the middle of the storm can significantly lower your return. If your investments don't perform as expected that could impact the other portions of your financial plan and knock your plan off track. If you are feeling nervous or unsure what to do, chat with your financial professional and review your plan. Sticking to your plan, is usually your best course of action.

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