SIX GOOD REASONS TO

# STAY INVESTED

Russell Investments

Financial markets often go through phases of relative calm followed by abrupt and often unanticipated spikes in volatility. It is important for investors to understand that volatility is normal and beyond our control. However, we can control how we react.

Generally, the best reaction is no reaction at all. Pulling out of the market when it is volatile can lock in losses and could lead to missing out on any subsequent rally. Here are six good reasons why staying invested for the long term is almost always the best way to navigate market turmoil:

### 1. Market timing is difficult.

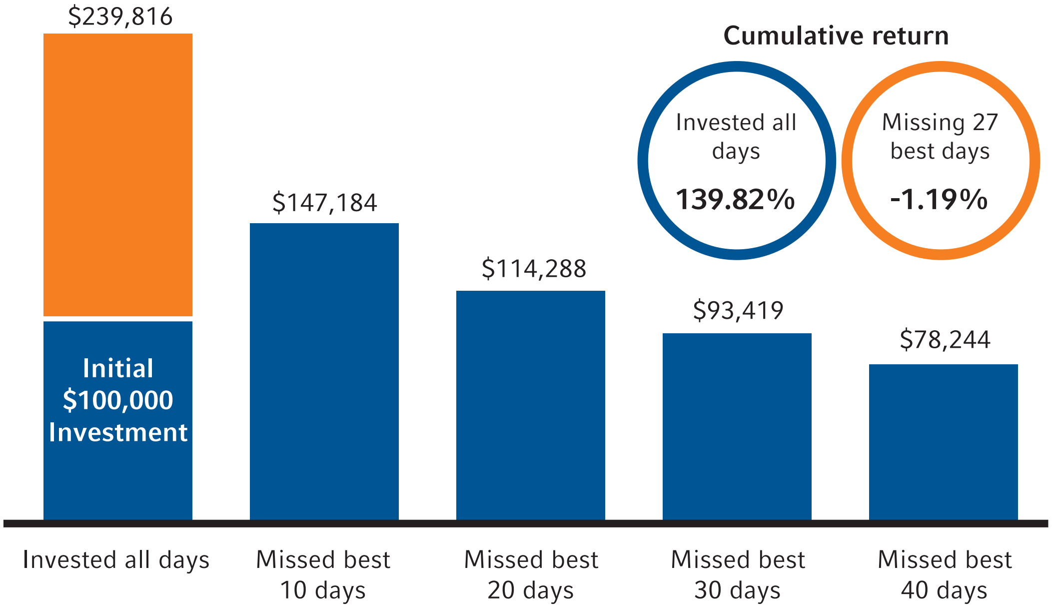
Ask the most experienced investors, and many will tell you that drastic allocation shifts in an effort to time the ups and downs of the market is immensely challenging.

As much as any investor would like to avoid market downturns and take advantage of rallies, to do so means getting out at the right time and knowing exactly when to get back in. Without a crystal ball, those are difficult calls to make with potentially adverse effects on your portfolio. Since no market cycle is the same, it isn't easy to anticipate market movements. All sorts of factors – politics, monetary policy, business activities (such as corporate mergers), and sudden international shocks (such as the global pandemic in 2020, the oil-price shock in the 1970s, and the tech bubble in the early 2000s) – can spark a market reaction.

If your timing isn't perfectly accurate, you could miss out on potential rallies, which are virtually impossible to predict. The chart below shows that missing even a few days of positive market activity can impact your portfolio.

**Why market timing is difficult**

Missing best days - 10 years ending December 31, 2021



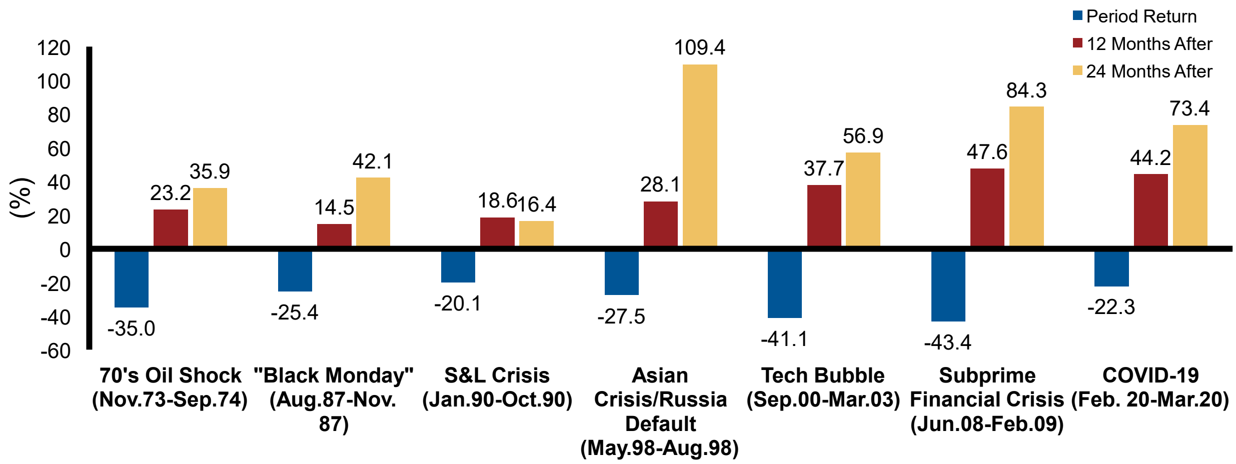

Source: Morningstar. In CAD. Returns based on S&P/TSX Composite Index, for 10-year period ending December 31, 2021. For illustrative purposes only. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

## 2. Selling during a correction is betting against the odds.

History suggests that periods of sharp declines have often been followed by periods of some of the most favourable returns. Figure 1 shows the strong returns of Canada's benchmark equity index during the 12- and 24-month periods following some of the sharpest declines of the past 40+ years. The strong historical tendency of markets to rebound provides some evidence that fear-induced dramatic alterations to asset allocation are unnecessary for investors who simply stay the course.

**Figure 1: Canadian equities have bounced back from market shocks**

S&P/TSX Composite Index returns after steep market declines




Source: BNY Mellon, Russell Investments. In CAD.

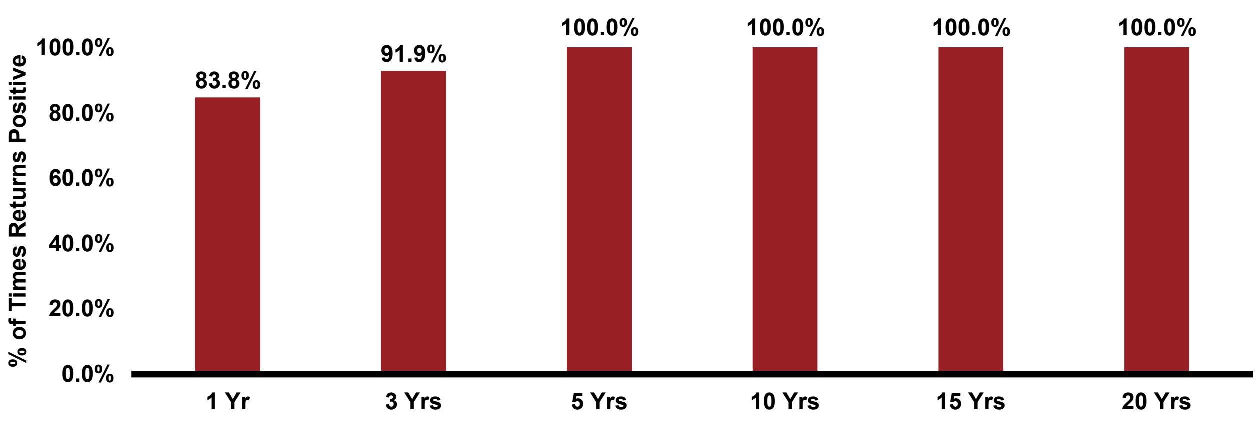
Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.
Please see last page for event descriptions.

## 3. The likelihood of negative long-term returns for a balanced portfolio has historically been very low.

Stocks have historically outperformed bonds when based on average rolling returns over one, three, five, 10 and 20 years. Just as compelling is the traditional ability of a balanced portfolio to produce positive returns. Figure 2 shows that a global balanced portfolio of equities and bonds has not produced a negative return over any five-year rolling period since 1979. The bottom line is that, although there are no guarantees the future will resemble the past, history tends to favour long-term investors.

**Figure 2: Diversified portfolio has done well in long term**

% of time diversified 60/40 mix produced positive returns (Based on rolling returns, December 1979-December 2021)




Source: Morningstar, Russell Investments. Diversified Portfolio contains: 20% S&P/TSX Composite Index, 20% S&P 500 Index, 20% S&P/TSX Composite Index (Canadian equities), 20% S&P 500 Index (U.S. equities), MSCI EAFE Index (international equities) and 40% FTSE Canada Universe Bond Index (Canadian fixed income). In CAD. Based on respective rolling period. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

## 4. Volatility breeds opportunities.

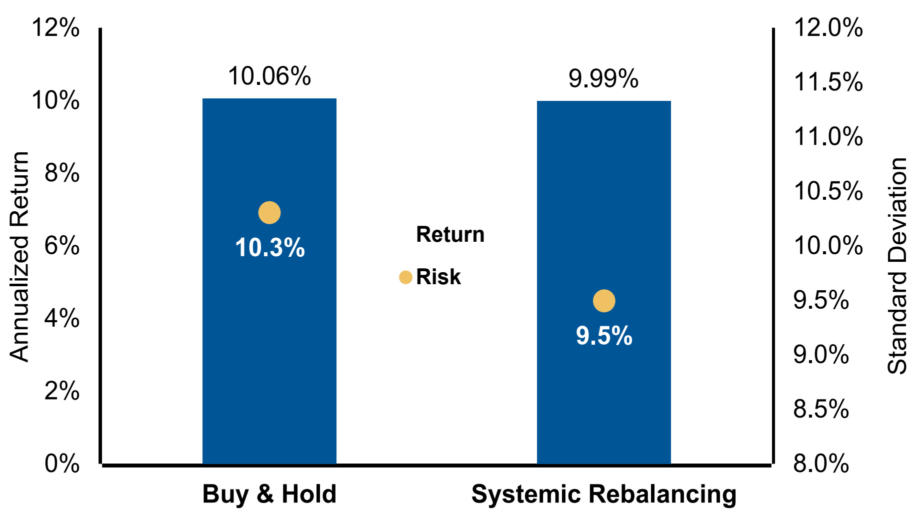
While economic uncertainty will always be a cause for investor anxiety, the resulting market volatility has historically offered active managers in equities and bonds the potential to better position portfolios for the longer term. Markets sometimes get over-exuberant and prices become excessive, but the opposite is also true. Short-term periods of crisis can push prices artificially low, creating excellent opportunities to buy. Our portfolio managers as well as the independent sub-advisers we hire can take advantage of temporary mispricing in the market. By doing so, it's possible to plant the seeds of potential long-term profits during periods of uncertainty.

## 5. Market volatility provides an opportunity to rebalance.

If a crisis creates an opportunity, then portfolio rebalancing is perhaps the best way to take advantage of that opportunity. When comparing assets within a portfolio, rebalancing means selling assets that have gained in value and buying assets that have fallen in value in order to maintain the overall strategic asset allocation. During a market correction, this should result in buying more assets that have decreased in value – an essential part of the process of buying low and selling high. As Figure 3 highlights, an asset allocation that is systematically rebalanced can help manage risk over time without significantly impacting potential return. Systematic portfolio rebalancing is a crucial aspect of Russell Investments' portfolio approach. In essence, it provides investors with increased exposure to opportunities that are likely to pay off in the long run.

**Figure 3: Rebalancing vs. Buy & Hold**

Benefits of rebalancing




Source: Morningstar, Russell Investments. Analysis based on quarterly data from 12/31/1979 - 12/31/2021. Asset Allocation: 20% S&P/TSX Composite Index, 20% S&P 500 Index, 20% MSCI EAFE Index and 40% FTSE Canada Universe Bond Index. In CAD. Risk is defined as standard deviation. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. Hypothetical simulated data is shown for illustrative purposes only and is not intended to represent any specific investments. Systematic rebalancing is a process where one buys or sells assets in their portfolio based on a preset condition to realign the asset allocation with the desired strategic weights.

Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. Shown for illustrative purposes only and is not intended to represent any specific investment.

## 6. Diversification can be most effective when markets are uncertain.

Over time, financial markets deal with numerous crises. To name a few over the last two decades, there was the technology bubble, a credit bubble, the U.S. subprime debt crisis, the sovereign debt crisis in the Eurozone, the emergence of the COVID-19 pandemic, and most recently, the war in Ukraine.

One reason to hold a globally diversified portfolio is in part to spread the risk budget across multiple asset classes in order to mitigate market volatility. Having a robust strategic asset allocation with regular rebalancing is important to manage risk and maintain the desired asset allocation. Additionally, from a multi-asset investors' perspective, longer-term returns have been reasonable. For example, the hypothetical globally diversified asset allocation in Table 1 shows solid returns over the long term.

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**Table 1: Benefits of Diversification – Annualized Returns**

| MARKET/ASSET CLASS | ONE YEAR ENDING DECEMBER 31, 2021 | FIVE YEARS ENDING DECEMBER 31, 2021 | 15 YEARS ENDING DECEMBER 31, 2021 |
|---|---|---|---|
| S&P/TSX Composite Index | 25.1% | 10.0% | 6.5% |
| S&P 500 Index | 27.6% | 17.1% | 11.3% |
| MSCI EAFE Index | 10.8% | 8.8% | 4.7% |
| FTSE Canada Universe Bond Index | -2.5% | 3.3% | 4.3% |
| Diversified Portfolio | 11.1% | 8.6% | 6.4% |

Diversified Portfolio contains 20% S&P/TSX Composite Index, 20% S&P 500 Index, 20% MSCI EAFE Index and 40% FTSE Canada Universe Bond Index. In CAD. Based on respective rolling period. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

## Where to go from here?

Russia's invasion of Ukraine in early 2022 is an example of how a global event can quickly change market sentiment.

The extreme swings in financial markets may make it hard to stay invested as we watch our portfolios gyrate. But as we have shown, volatility is a normal part of investing, market downturns are eventually followed by market rallies, and history has demonstrated that patient investors have been rewarded over the long term.

- Avoid the temptation to overreact to market movements.
- Reduce risk through proper geographic and asset class diversification.
- Consider multi-asset investing for a more holistic approach geared towards return enhancement but with a natural focus on downside risks.

**Event descriptions:**

**70s oil shock** – sharp spike in oil prices due to OPEC embargo

**Black Monday** – October 19, 1987 stock market crash

**Asian crisis-Russian default** – Asian financial crisis from currency devaluation spreads to Russia

**Savings & Loan Crisis** – Widespread failure of U.S. savings and loans associations

**Technology bubble** – sharp rise then fall in stock prices of technology companies

**Subprime financial crisis** – collapse of U.S. housing prices

**COVID-19** – emergence of global health pandemic

To find out more, please ask your advisor or contact us at **1-888-509-1792** or visit us at **russellinvestments.com/ca**

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Diversification does not assure a profit and does not protect against loss in declining markets.

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