

3 guidelines to keep in mind in volatile markets



We are faced with headlines every day that may cause us to think about bailing on investments when markets get jittery. Whether it's a global pandemic, hiccups in the vaccine rollout or geopolitical tensions, the news can be very distracting.

It's important to remember to stick to your long-term financial plan and avoid emotional, headline-driven decisions. To help ease some of the angst, consider these three guidelines to help you keep things in perspective, and stay calm and invested.

On days where headlines are alarming and investors like you are wondering what's happening to your savings, it's more crucial than ever to focus on the bigger picture and your long-term goals. At Russell Investments, we believe that investors can avoid missteps that can lead to bigger shortfalls than they are already facing. Recent events have served as a reminder of this. Investing can be uncomfortable for a lot of people, but does it have to be?

1. No one (really) can time the market

Even the most sophisticated investors will tell you that it is virtually impossible to accurately predict the market's short-term moves. In fact, mistiming can be disastrous to investment returns. In a low growth/lower return environment, what does this mean for investors saving for retirement? In today's reality, where investors are more likely than ever to face retirement income gaps, they can't afford to miss out on returns.

We believe in the power of being invested over the long-term. Not being invested (strategy #5 in Exhibit 1 on page 2), and simply leaving money in cash, yields by far the worst ending wealth of any investment option. Even investing your money on the worst days of the market (strategy #4 on page 2) is still more favorable than not investing at all.

2. Nothing, especially volatility, lasts forever

There have been many times throughout history where markets have declined—but these relatively short periods are most often followed by the most favorable returns. Unfortunately, due to loss aversion¹—one of the principles of behavioral economics—people tend to remember the bad twice as much as the good². Even though we experienced the longest bull

“In the financial markets, hindsight is forever 20/20, but foresight is legally blind. And thus, for most investors, market timing is a practical and emotional impossibility.”

Benjamin Graham,
The Intelligent Investor

¹ Loss aversion is people's tendency to prefer avoiding losses to acquiring equivalent gains.

² Source: Seeking Alpha: The Persistence of Aversion: Why Investor Pains Hurts Twice. <https://seekingalpha.com/article/4240745-persistence-of-aversion-why-investor-pain-hurts-twice>

run³ in history between March 2008 and February 2020, many investors abandoned their long-term investment strategy when markets were jolted by the shut-down of economic activity as the pandemic spread in the spring of 2020. It's true that markets fell sharply at that time. However, investors who remained invested would have seen the markets begin to rebound by the end of March and finish the year higher than they started.

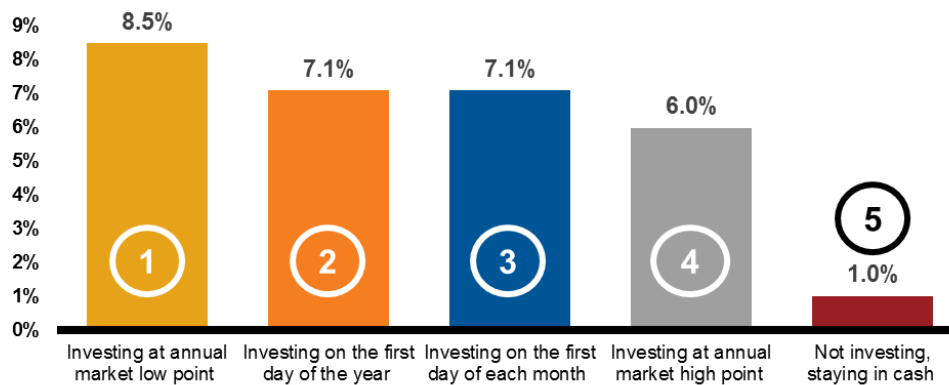
Since 1924, stocks have more often finished the calendar year in positive rather than in negative territory—in fact, 73 percent of the time, as evidenced in Exhibit 2 on page 3.⁴ It's extremely challenging to predict whether a calendar year will be positive or negative.

Exhibit 1: The power of being invested over the long term

1 Perfect timing	2 First of year	3 Dollar cost averaging	4 Perfectly wrong timing	5 Holding cash, no investment
This strategy is ideal, yet implausible.	Investing your money for the most amount of time can yield the most gain in most market environments	A popular rules-based strategy. Can help investors cope with uncertain or volatile markets.	Despite bad timing, assets invested in the market may grow faster than if left in cash.	Holding cash too long can result in the least growth of wealth.

Hypothetical Example of a Money-weighted return after investing \$12,000 per year

Period ending December 31st, 2020



Note that one year represents a 12-month period ending December 31. Source: Morningstar, Russell Investments.

Assumes a one-time investment of \$12,000 per year into Canadian Equity represented by S&P/TSX Composite Index with no withdrawals between Jan 1, 2011 and Dec 31, 2020. Cash return based on return of \$12,000 invested each year in 3-month Treasury bonds represented by FTSE Canada 91 Day T-Bill Index without any withdrawals between Jan 1, 2011 and Dec 31, 2020. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. For illustrative purposes only.

³ Bull markets are markets where the cumulative return exceeded 20%.

⁴ Represented by the S&P/TSX Composite Index from 1924-2020. Source: Confluence

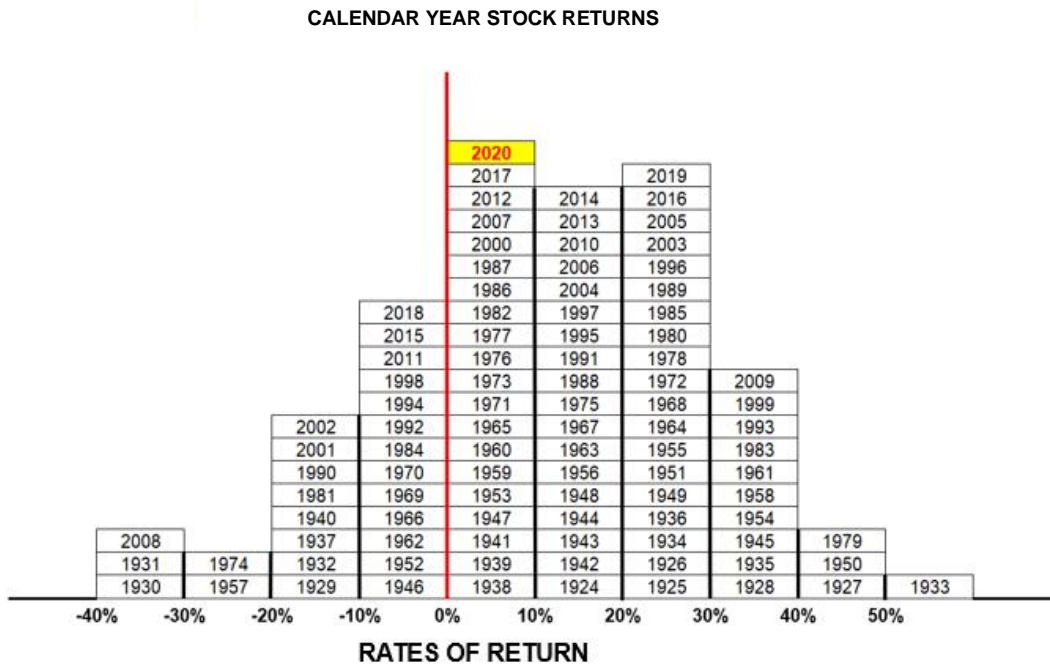
3. Diversification matters

Working with your financial advisor, having a robust strategic asset allocation with regular rebalancing, or investing in a professionally managed multi-asset asset solution, can potentially enhance returns, but more importantly, help manage volatility. Periods of panic provide an equally good opportunity to ensure that investors have the right attitude when it comes to risk. Russell Investments has consistently advocated for investors to consider a global multi-asset approach to investing. We believe doing so may put investors on a smoother path toward meeting goals, while also helping to manage risk. Put simply, investors diversify because the future is uncertain, and no one can predict with certainty which asset class will win or lose over the upcoming market cycles.

“The only investors who shouldn’t diversify are those who are right 100% of the time.”
John Templeton⁵

Exhibit 2: Historically it has paid to own stocks

Calendar year S&P/TSX Composite Index (representing Canadian stocks) returns, 1924-2020



73% of the time, Canadian equity market has posted calendar year returns above zero

Represented by the S&P/TSX Composite Index from 1924-2020. Source: Confluence. 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.

⁵ Source: Financial Express: How legendary investor John Templeton learned to put his eggs in different baskets, by Sushruth Sunder. <https://www.financialexpress.com/market/how-legendary-investor-john-templeton-learned-to-put-his-eggs-in-different-baskets/847894/>

The bottom line

While navigating uncertainty and extreme market volatility is difficult, it's important to keep the big picture in mind and stay focused on your long-term goals. Historically, over the long term, markets have been positive more often than negative, as shown in Exhibit 2. Volatility is a reality, even in positive markets, and diversification is a tool every investor can rely upon to help withstand market corrections. Rather than reacting to volatility and trying to time short-term market gyrations, Russell Investments believes that investments should be based on personal long-term goals, time horizon, financial circumstances and risk tolerance, not on what markets are doing at a given moment. Economic uncertainty will always be a cause for anxiety, so it's important to remember these guidelines and to speak with your financial advisor when the markets get choppy.

About Russell Investments

For more than 50 years, globally we've helped guide the investments of some of the world's largest companies, foundations and pension plans. Working with your financial advisor, you can benefit from this same expertise through our multi-asset, outcome-oriented solutions that are strategically designed to address investors' wide-ranging investment needs and objectives. No matter what stage of life you are in, we believe how you invest matters. That's why we provide investment solutions that are designed with your goals in mind.

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Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Diversification and strategic asset allocation do not assure a profit or protect against loss in declining markets.

Dollar Cost Averaging does not assure a profit or prevent a loss in declining markets, and you should consider your ability to continue investing during low price levels.

S&P/TSX Composite Index: The benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange.

FTSE Canada 91-Day T-Bill Index: A benchmark that tracks the performance of 3-month Canadian government treasury bills.

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