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Market Highs vs Your Goals

Tags: investment planning [1]

As stock market indexes in Canada and the U.S. make new highs on an almost daily basis, as of late June and early July, many investors have expressed increasing anxiety about a possible 'correction'.

Media headlines and commentary on BNN speculating about a possible correction from these recent highs, following a strong run over the past year or more has added to this investor anxiety.

Let's put this into perspective. Would these same clients be calling to sell if their home were hitting record all-time highs? No, it is likely they would be celebrating and cheering the market higher. So what makes the stock market and equity investing different from other asset classes? And how does this fact about markets hitting new highs affect your ability as a consumer to build wealth and retirement assets over time?

Markets always move up and down over short periods of time, and in fact might correct by a few percentage points by the time you read this. But such changes, often referred to as volatility? (as opposed to the loss? that most consumers label any downward market change as) are normal and belie the fact that the trend over time has been increasingly higher as corporate profits, which are what ultimately drive individual stock prices, have risen over time.

The important points to remember are that stock market values may decline over a short time frame but they have historically recovered and do not stay down in the depths of a correction. Secondly, everyone seems to be scared of volatility? which is **the normal up and downs of the stock market**, as well as the weather, your moods and so on. You can try to dampen volatility so that you feel better? about the stock markets, but doing so may also largely negate your ability to generate positive investment income and growth on your savings.

What also affects your views on the current record market levels is what type of correction are we talking about and what type of investor are you? For example, most market corrections (which are not the same thing as a permanent loss) happen within a strong and continuing business cycle expansion. Which means the market values may bounce around somewhat even as the economy continues to grow and recover from the previous recession. The other type of correction happens when the business cycle ends in a recession, which has been occurring roughly every 5 10 years since about 1990.

How does any of this affect you if you are thirty years old and have low savings relative to earned income? **Market corrections are a great opportunity to buy quality investments on sale!** If you are in your seventies then cash flow and capital preservation is more important so you need to have a strategy in place to smooth out your cash flow in anticipation of the inevitable recessions that are part of our economic system. You do not want to be forced to sell at market lows to pay for your groceries!

Even if you are correct and can figure out when the next recession will start, will you then jump back into the investment markets to profit from the next recovery and improving profit and business cycle? Behavioral finance demonstrates that this is unlikely.

Call us today to review your goals and objectives and to ensure that your current investment approach will allow you to fulfill your goals!

Questions about your investment strategies?

Contact our office today ! [2]

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