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Understanding Market Volatility - Part 2

By admin

Our previous article looked at the increase in market volatility in 2018 in historical terms to put it in perspective. The other factor to consider is where are we in the market cycle and what this might mean for you personally in terms of your own long-term financial strategy.

Many market commentators suggest that we are past the half-way mark as far as the longevity of this equity market run since mid-2009. If history is any guide, there is very likely more time left before the next recession or bear market (defined as a 20% or more correction in the equity markets).

The primary challenge facing investors today is to resist the temptation to think about risk solely in terms of day-to-day market volatility. This short-term thinking usually leads to investors jumping into low-volatility (low return) assets, during times of higher equity market uncertainty, which can leave a portfolio lacking long-term growth potential and increase the risk of under-performing inflation. Moreover, these types of investment decisions could have a negative impact on long term asset accumulation goals, according to a report published in May 2018 by UBS Financial Services Inc.

It is important for investors to make plans and decisions in the context of their current and future financial situation. There is no point being concerned about short-term market volatility when an investor is still growing their assets (between their 20's through to their early 60's), and their asset base is not yet large enough to generate about $50,000 retirement income per year or more. This figure is the one surveys show that the average Canadian considers to be their ideal retirement income goal. Everyone has a specific retirement income target that probably varies from the average, but **the idea is to keep long term goals and current individual situations in mind to minimize the risk of an investor making hasty investment decisions based primarily on short term market ups and downs (volatility).**

While there are some new risks that might be worth factoring into an asset allocation strategy for 2018, such as the maturing business cycle, protectionism, tariffs and others geopolitical uncertainties, these risks have almost always been present to one degree or another over long periods of time. Therefore, these unique investment risks need to be balanced with your own personal situation and portfolio strategy.

UBS notes that global growth is still strong and expected to match the 2017 rate, making 2017 and 2018 the best two-year period of the global economy since 2010-2011. They also expect corporate profit growth (the ultimate driver of individual equity prices and higher markets), to remain strong in the mid-double-digit range globally.*

The key factor in a personal investment strategy is to ensure that your current asset allocation will allow you to achieve your long-term goals while being ready for adjustments to enable better exposure to global growth outside of North America, notes UBS.

Call us today for a portfolio and investment strategy review [1] to ensure you are on track to achieving your long term financial planning goals.

UBS Financial Services Inc, *Volatility is back. Are you prepared?*. May 10, 2018 - *Page 5

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