

Investing for the Long Term

On any given day, which way the market is headed is anybody's guess. Historically equity markets have gone up over the long term. Since 1956, the Toronto Stock Exchange Total Return Index for the top 300 stocks, which includes reinvested distributions, has increased 81-fold.

But markets don't go up in a straight line. Canadian market watchers have seen a number of dips, troughs and corrections over the years both domestically and internationally. There have been worries, about inflation, worries about deflation and more than a few currency meltdowns-Mexican, Brazilian, Asian and Russian. There have been repeated commodity slumps and sell-offs. These downturns were often temporary, although some have been protracted.

Volatility is inescapable in the short term and can spell doom for the short-term investor. For example, during the Asian currency crisis in 1998, markets around the world took a nasty tumble before reaching all-time highs in 1999 and 2000.

Tumultuous markets will always make you feel anxious. Anxiety often leads to the temptation to get out while the market is falling, and perhaps jump back in when things are safe again. The problem with that tactic is that it causes you to buy investments when their prices are high or at their peak, and sell them when the price declines, inevitably causing you to lose money. In fact, excessive portfolio turnover combined with a propensity to buy relatively overvalued investments and ignore relatively undervalued ones has caused the average mutual fund investor to under perform over the past decade. (Phoenix Investment Partners Study, December 2000)

Experiencing market volatility is the short-term price of garnering superior long-term potential returns on equity mutual funds. The key to success in earning superior returns is not to lose sight of your long-term goals, remember that equity markets do go up over the long term, and employ an effective asset allocation strategy when you and your investment advisor build and manage your portfolio.

Source: AGF Funds Inc.

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