Time in the Market…not Timing the Markets

For most investors, whether just starting out or trying to get back on track, the old adage is true – "Failing to plan is planning to fail". It's the reason many people do not believe they have enough saved for retirement and others have sleepless nights over their finances. But the good news is investing can be really quite simple. First you need to decide what your goals are, whether it's saving for that first home or wanting early retirement. Then you need to make a plan: whether you do-it-yourself or with the help of a professional, this step is one of the most critical. Without a plan, long term goals can easily get waylaid in the short term busyness of everyday life. Add in some professional investment advice and you have a great way to help you keep on track.

So what does a plan include? The plan will be different for every person as it depends on your goals and dreams. But generally, an investing plan uses a disciplined approach that can allow you to accumulate the money you need over your lifetime to reach your desired goals. There will always be trade-offs for everyone depending on specific circumstances of life now and in the future. The important thing is not to just have a wish and a hope that your dreams might one day become reality, but to have a plan that outlines the steps needed to help you achieve those goals. Just as having a road map helps you successfully reach your destination, having a plan will help give you the confidence that it is possible to achieve your goals.

So armed with your long term plan, what comes next? To put it simply, long term investing. Thinking long term opens up a lot more opportunities for investors. Trying to reach long term goals like retirement all in one year will only leave you frustrated. Recognizing that you must start saving as early as possible and understanding that it takes time to accumulate money is one of the major keys to investing. Now is always the best time to begin creating your plan, and for many people, thinking about a plan actually means you are already half way to reaching your goals.

Unfortunately, many investors try to time the markets. Timing the market is not a long term investment strategy. It's a short term investment strategy that tries to take advantage of dips in the market by purchasing when the market is low, or by selling when the market is high. The problem with this strategy is that by focusing on just when to buy or sell, it's easy to ignore your long term objectives and make investments you normally wouldn't – essentially it diverts your attention from where it should be.

Although some consider long term investing to be putting money in the bank and never looking at it again, it is by no means a static process. Long term investing will change along with your lifestyle needs and as your goals change.

Developing a disciplined strategy involves several elements as part of your plan and can be divided into four steps; asset allocation, diversification, investment selection and ongoing monitoring.

1. Asset allocation

Long term portfolio planning begins with an asset allocation plan designed to achieve the highest return for the level of risk that is acceptable to you. Combining asset classes with different characteristics in your portfolio can help you achieve higher returns with lower risk over the long term.

2. Diversification

By not putting all your eggs in one basket, you can further reduce your portfolio risk by spreading it out. Opportunities exist to diversify by industry sector, market capitalization, geography, currency and, in the case of managed investments such as mutual funds and exchange-traded funds (ETFs), by management style.

3. Investment selection

Special attention and careful research needs to be applied when selecting investments that you intend to hold for the long term. Although there are many characteristics to consider when looking for an investment, one important factor remains - choose an investment with a solid track record that is consistent over the short and long term.

4. Ongoing monitoring

Even though you intend to stay invested for the long term, there may be times when changes will be necessary. Typically, this will occur when your objectives or your investments undergo a change. For instance, you may become more risk-averse or determine that you want to pursue higher returns.

Your investments may also change their approach or objectives and no longer be in line with your goals or risk tolerance. These fundamental changes should prompt a portfolio review that will allow you to make any required adjustments. An investment professional can play a key role in helping you identify these changes.

Tips to help you stick to your long term investing plan

a) Dollar cost averaging

When you invest an equal dollar amount in an investment at regular intervals, this ensures that the price you paid for the investment is the average over a period of time. When the price is high, you buy less: when the price is low, you buy more. There is no guesswork in dollar cost averaging. It also can help you invest more as small regular investments are usually easier to budget for than one large lump sum once a year.

b) Avoid the temptation to market time

Attempting to time the markets can result in emotional investing. Market timers can be hard on themselves when they get the timing wrong and very excited when they get the timing just right. This emotional investing can lead to mistakes and stress. Rather than having the peace of mind that comes from a well-developed and implemented long term strategy, market timers can be more likely to worry about their investments and the market in general as they constantly try to stay one step ahead. As the table below illustrates, missing just a few days of a strong performance can dramatically reduce your annual return.

Investing in the S&P/TSX Composite Index for the last 15 years	
Period of Investment	**Average Annual Return***
If you stayed fully invested	3.76%
If you missed the 10 best days	-0.46%
If you missed the 20 best days	-3.07%
If you missed the 30 best days	-5.41%

* From January 1, 2000 to December 31, 2014 (3,770 trading days).
Source: TD Wealth Portfolio Advice & Investment Research

Avoid the temptation of market timing by choosing regular times to review your portfolio; at least annually is preferable, and again when any major life events occur. Regular portfolio reviews can help you maintain a disciplined approach and help ensure that your investment portfolio is aligned with your goals and objectives.

c) Have an investment professional create an investing plan and coach you along the way.

There is no reason you can't go it alone, but you don't have to. Seek the advice of a respected industry professional to help you create your optimal long term investing plan.

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