NEI

» DEMAND MORE. WE DO.

IT PAYS TO STAY INVESTED

2024

Stock markets rise and stock markets fall. Thankfully, history shows that over the long term, they go up more than they go down. That's why when you invest appropriately, you're able to grow your money for the future.

Even though market declines are a natural part of investing, they can still be scary, and they can hurt your portfolio if you make a poor decision at the wrong time. How do you reduce anxiety when markets fall? And how do you give yourself the best chance to meet your goals?

The answer is simple: **stay invested**.

Once you've built a well-diversified portfolio suited to your goals, time horizon, and tolerance for risk, staying invested through *all market conditions* is a time-tested strategy for achieving investment success.

Is it possible to make more money buying and selling investments throughout the year to capture gains and avoid losses? Yes. But it's unlikely. In fact, we'll share data showing the average investor earns a return significantly below that of the overall market. Part of the reason is that investors buy and sell at the wrong time, "locking in" losses that would eventually have been erased – if they had only stayed the course.

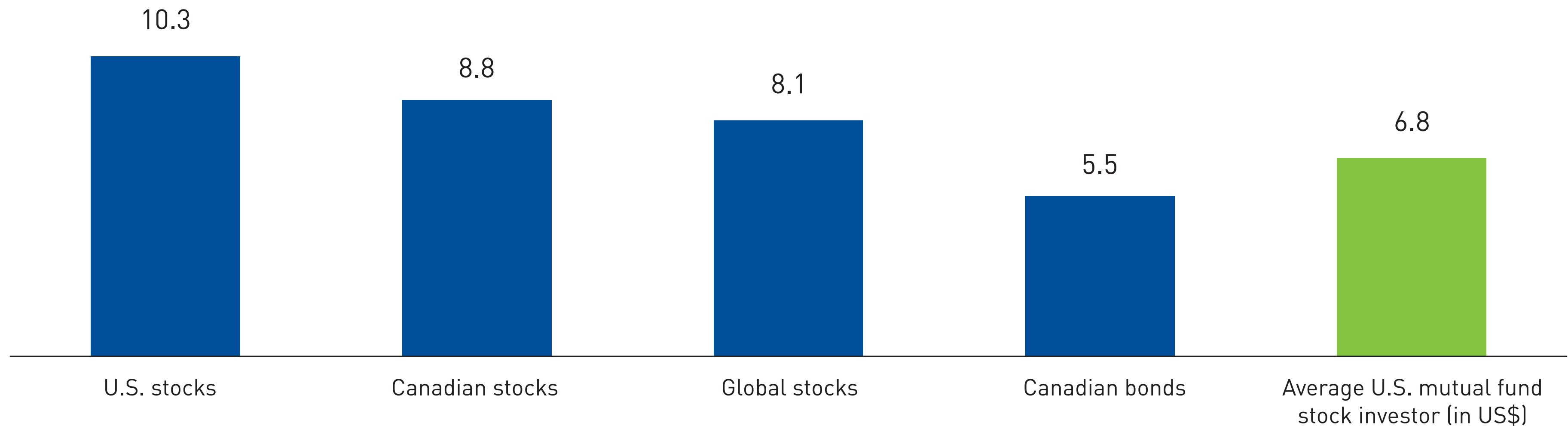
Review these charts with your advisor. You'll come away with a clear understanding of how markets have behaved historically in good times and bad, and why simply doing nothing can often be the best plan of action.

GET STARTED »

THE STRUGGLE TO KEEP UP

ANNUALIZED RETURNS %

January 1994 to December 2023



What this chart shows

Different types of investments produce different levels of return. For example, over the past 30 years, U.S. stocks have outperformed their Canadian and global peers. The worst performer of all is investors themselves.

The bottom line

Despite best intentions, the average investor is unable to match the equity returns of the market, let alone beat them.

For more about the charts in this book, see page 16.

BAD BEHAVIOUR – IT'S ONLY NATURAL

Dalbar is a U.S. research firm known for its studies of investor behaviour. Researchers there have identified nine behaviours that can lead to weak investment performance. Of the nine, three stand out as the most detrimental:

LOSS AVERSION

Our natural fear of losing money can lead to withdrawal of capital at the wrong time – when markets are already falling.

ANCHORING

The tendency to falsely believe that events and conditions from the recent past are more important and are worth greater consideration than older events.

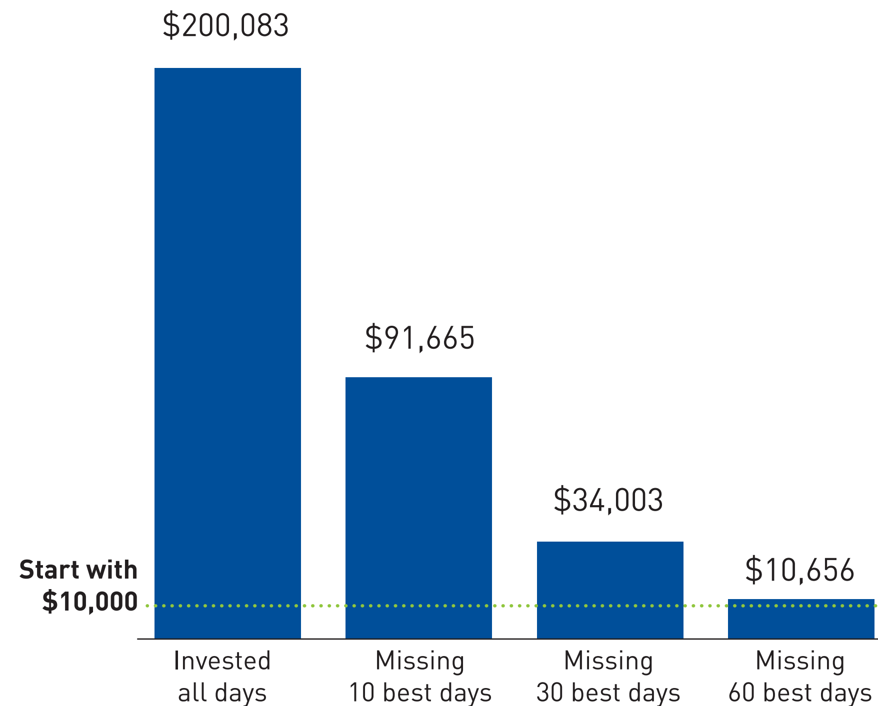
HERDING

Doing what everyone else is doing, just because everyone else is doing it. "If other people are selling their investments, maybe I should too..."

SUCCESS MEASURED IN DAYS

GROWTH OF $10,000

U.S. stocks from January 1993 to December 2023



What this chart shows

All it takes is a few days to make a big difference in your portfolio. The bar on the left shows how much an investment of $10,000 would have grown if you'd owned U.S. stocks for the last 30 years. But what happened if you missed just the top 10 days during that period? You would have given up roughly $108,000 - more than half your money.

It's true that missing the 10 *worst* days is a powerful way to achieve the opposite: large gains. The problem is, whether best or worst, it's impossible to know when they're coming.

The bottom line

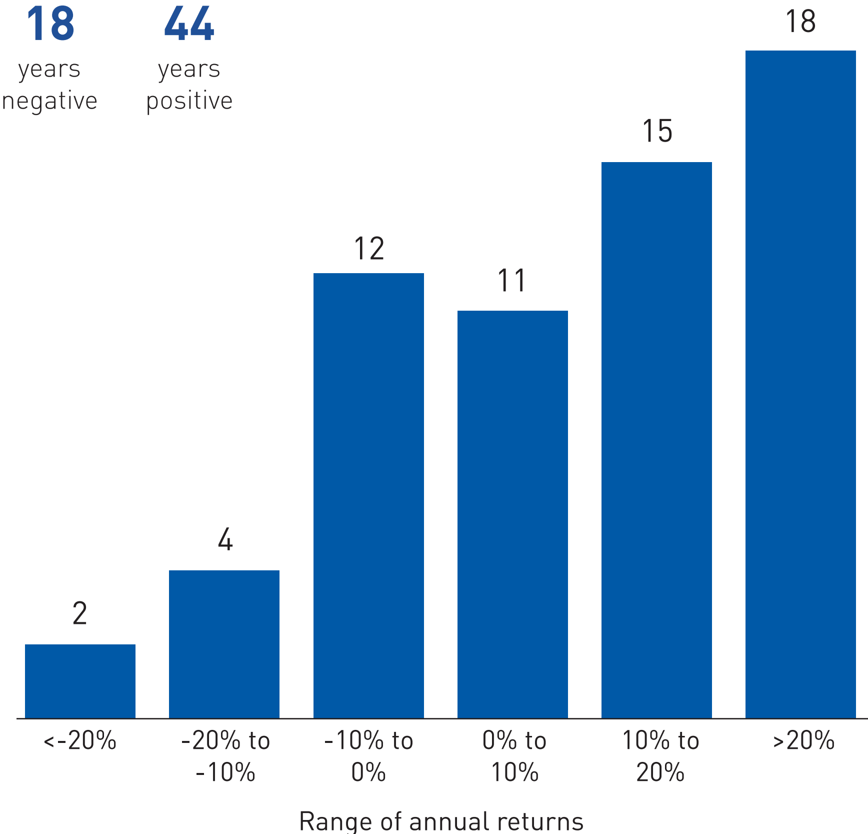
To ensure your portfolio will always benefit from big positive days in the market, *no matter when they happen*, you must be willing to accept the bad days too. Stay invested, it pays off in the end.

For more about the charts in this book, see page 16.

THE GOOD OUTWEIGHS THE BAD

RANGE OF ANNUAL RETURNS

Canadian stocks from 1963 to 2023



What this chart shows

Not only have there been many more positive years than negative ones for Canadian stocks over the past 60 years, the most positive outcome was also the most frequent. The Canadian stock market delivered an annual return of more than 20% *sixteen times more often* than it delivered a decline of that amount.

The bottom line

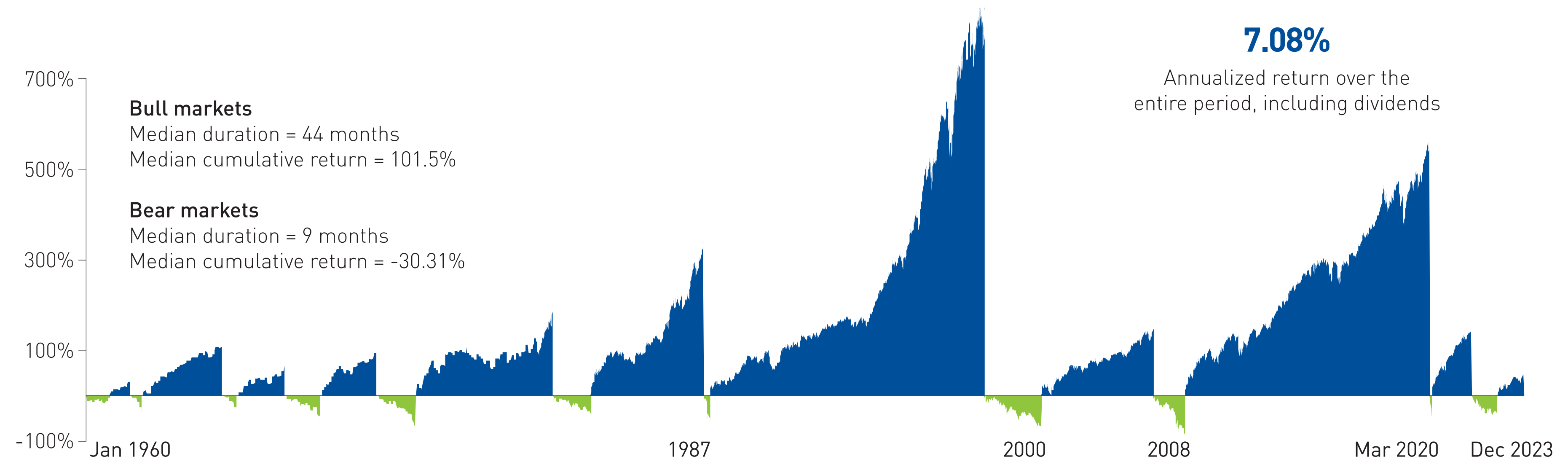
Historically, a positive annual return from the stock market has occurred much more often than a negative one. What's more, a *large* positive return has occurred most frequently of all.

For more about the charts in this book, see page 16.

THE BIG PICTURE IS POSITIVE

BULL AND BEAR MARKETS

U.S. stocks from January 1960 to December 2023



What this chart shows

Looking at stock market returns for the past 64 years, evidence clearly favours the bulls. Periods of rising stock prices, or "bull" markets, have typically lasted roughly four times longer than periods of falling prices, or "bear" markets. And, at 101%, the median gain from a bull market has been more than enough to compensate for the median loss of 30% during a bear.

The bottom line

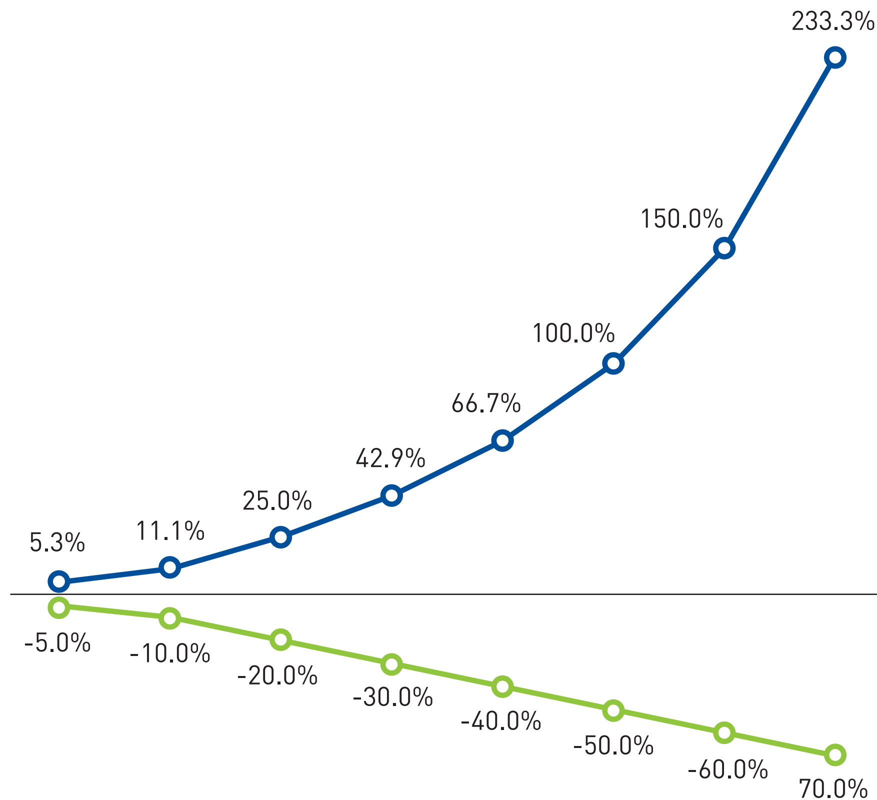
When comparing periods of rising and falling markets, rising markets have historically:

- ✓ Lasted longer
- ✓ Been more frequent
- ✓ Produced gains that are more than enough to offset losses

For more about the charts in this book, see page 16.

THE STEEPER THE LOSS, THE HARDER THE RECOVERY

PERCENTAGE GAIN REQUIRED TO COMPENSATE FOR PERCENTAGE LOSS



What this chart shows

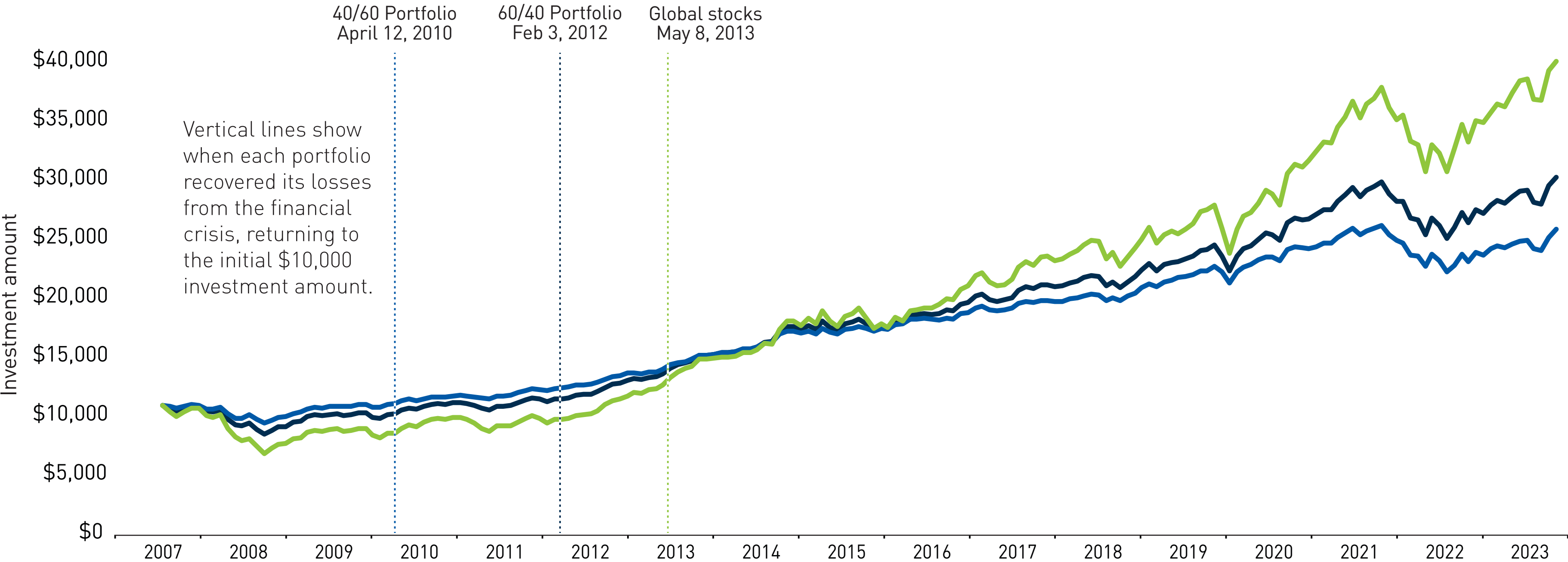
If you lose 10% of your money in the stock market, you need to earn 10% to get back to even, right? Not exactly. As you can see by the way the lines in this chart diverge, the relationship is asymmetrical. If your initial loss is small, as shown at the left, the gain required to break even is only slightly higher. But what happens if you lose 30%, as many did during the 2008/09 financial crisis? It would take a gain of almost 43% to get back to even.

The bottom line

Many investors are under the impression that it's only the gains that drive long-term returns. In truth, it's every bit as important to *limit your losses*. You can do that by using effective risk management strategies, such as diversification.

For more about the charts in this book, see page 16.

GET BACK ON TRACK FASTER WITH BONDS



What this chart shows

Global stocks fell further during the financial crisis than a diversified portfolio made up of both stocks and bonds. And even though stocks eventually caught up to the balanced portfolios, and have surpassed them in recent years, they took significantly longer to recover from their decline. See how the portfolio with a 60% allocation to bonds (blue line) recovered its losses roughly *two years earlier* than the one with a 40% allocation to bonds (black line)? That's how powerful bonds can be in offsetting the volatility of stocks.

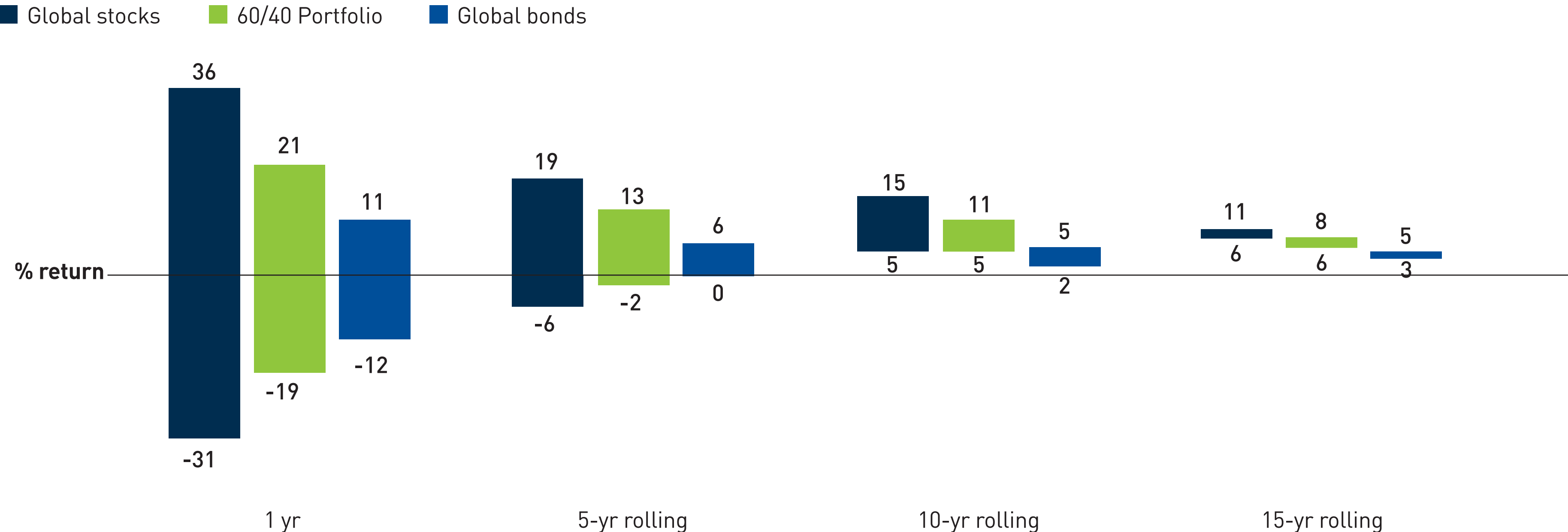
The bottom line

If you're concerned about how long it might take to recover from severe stock market losses, balance your portfolio with bonds. You may not earn as high of a return at the end of the day, but the journey there is likely to be more comfortable.

For more about the charts in this book, see page 16.

LONGER INVESTMENT PERIODS MEAN SMOOTHER RETURNS

ROLLING RETURNS FROM JANUARY 2004 TO DECEMBER 2023



What this chart shows

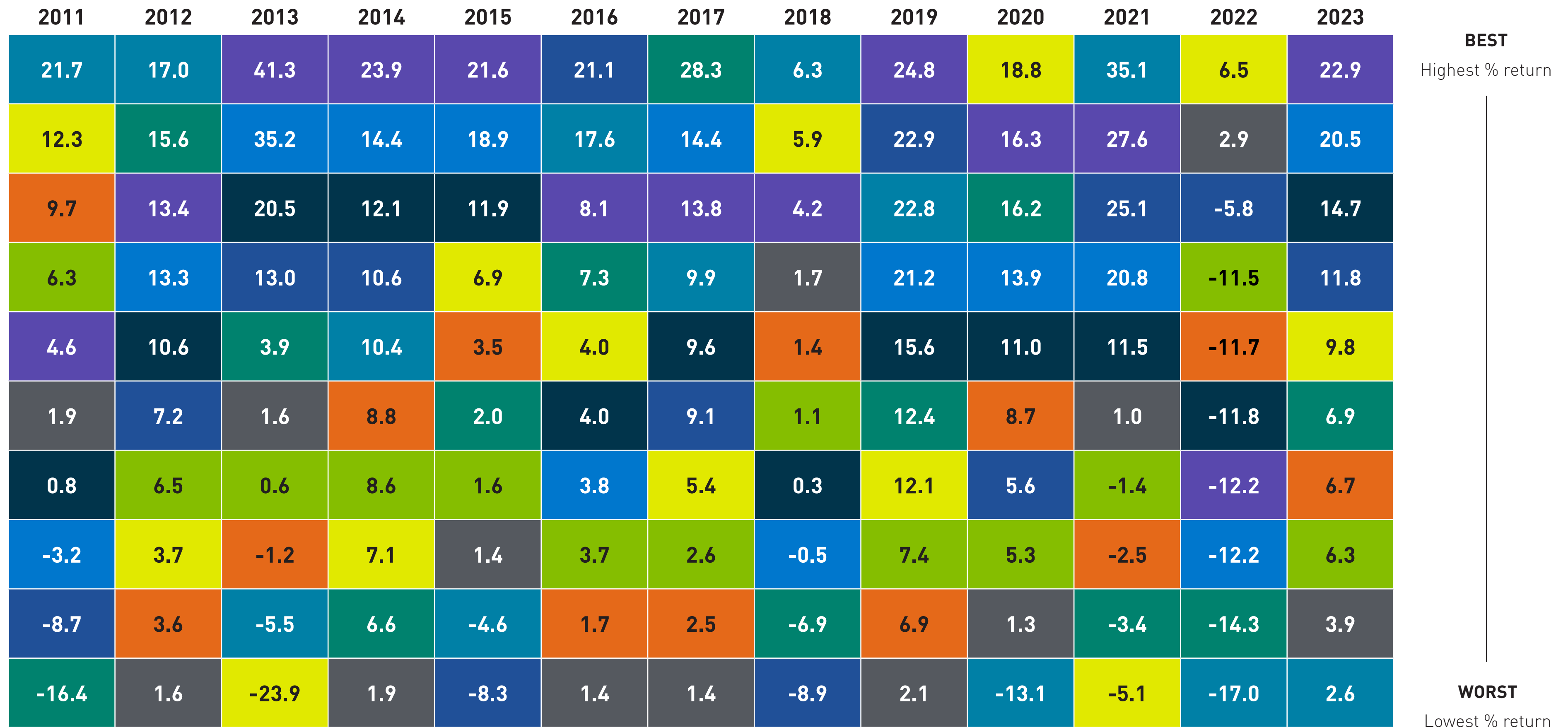
The top value in each column is the highest rolling return over the 20-year period, the bottom value in each bar is the lowest. Notice how as you move across the chart to the right, the highs get lower and the lows get higher, which makes for a more consistent and overall *more positive* return profile. In fact, for the 10 and 15-year rolling periods to the end of 2023, there wasn't a single negative period for any of the three portfolios.

The bottom line

The longer the investment time horizon, the more likely you are to experience positive returns, not just through the best of times, but through the worst of times as well.

For more about the charts in this book, see page 16.

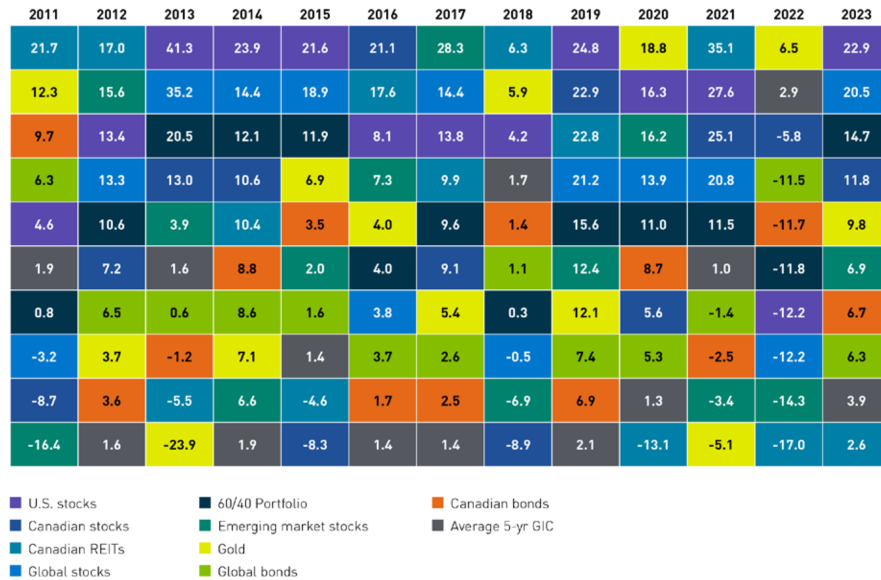
A DIVERSIFIED PORTFOLIO TO MANAGE RISK: THE CHART



2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
21.7	17.0	41.3	23.9	21.6	21.1	28.3	6.3	24.8	18.8	35.1	6.5	22.9
12.3	15.6	35.2	14.4	18.9	17.6	14.4	5.9	22.9	16.3	27.6	2.9	20.5
9.7	13.4	20.5	12.1	11.9	8.1	13.8	4.2	22.8	16.2	25.1	-5.8	14.7
6.3	13.3	13.0	10.6	6.9	7.3	9.9	1.7	21.2	13.9	20.8	-11.5	11.8
4.6	10.6	3.9	10.4	3.5	4.0	9.6	1.4	15.6	11.0	11.5	-11.7	9.8
1.9	7.2	1.6	8.8	2.0	4.0	9.1	1.1	12.4	8.7	1.0	-11.8	6.9
0.8	6.5	0.6	8.6	1.6	3.8	5.4	0.3	12.1	5.6	-1.4	-12.2	6.7
-3.2	3.7	-1.2	7.1	1.4	3.7	2.6	-0.5	7.4	5.3	-2.5	-12.2	6.3
-8.7	3.6	-5.5	6.6	-4.6	1.7	2.5	-6.9	6.9	1.3	-3.4	-14.3	3.9
-16.4	1.6	-23.9	1.9	-8.3	1.4	1.4	-8.9	2.1	-13.1	-5.1	-17.0	2.6

For more about the charts in this book, see page 16.

A DIVERSIFIED PORTFOLIO TO MANAGE RISK: HOW IT WORKS



What this chart shows

If you invest in a single asset class, such as Canadian stocks or emerging market stocks, the variation in returns can be extreme. It's not uncommon for asset classes to zig-zag from top to bottom and back again from one year to the next.

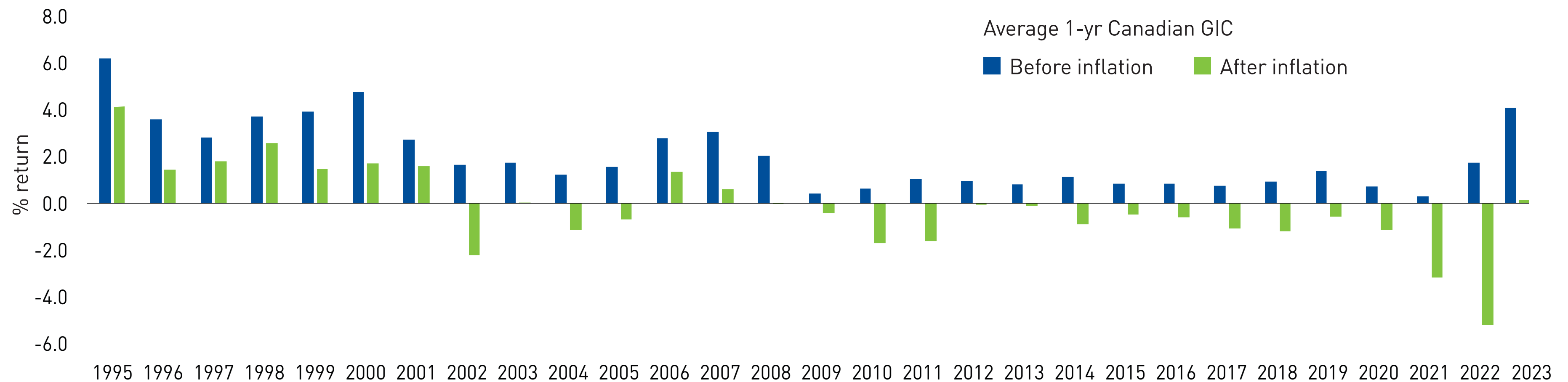
Now observe the diversified portfolio (black box), which holds 60% global stocks and 40% global bonds. Watch how the portfolio threads its way through the chart, never at the top and never at the bottom. That consistency relative to the individual components is the power of diversification.

The bottom line

While a diversified portfolio is unlikely to give you the highest return, it won't give you the lowest return either. The purpose is to provide a smoother investment journey, so you can achieve your goals with as little anxiety as possible.

For more about the charts in this book, see page 16.

THE COST OF CAPITAL PROTECTION



What this chart shows

You may be tempted to eliminate market risk altogether and invest your money in guaranteed investment certificates. At least you'll earn a small amount of interest, and you won't *lose* money, right? There's another factor to consider: inflation. After subtracting inflation, which reduces the purchasing power of your money, the average "real" return on a 1-year GIC was negative for 17 of the last 28 years. That has been due to exceptionally low interest rates following the 2008/09 financial crisis, and COVID-19 pandemic. If you factor in taxes, this picture becomes yet more discouraging.

The bottom line

Investing in the stock market carries the risk of losing money. But *not* investing in the stock market carries its own risk – the risk of failing to meet your goals because your returns were too low.

For more about the charts in this book, see page 16.

POINTS TO REMEMBER

- History shows that markets go up more than they go down, and there are many more positive periods than negative ones
- Your portfolio can suffer heavily if you miss even a few of the best days in the market, and you never know when they're coming
- Limiting losses is crucial to generating the long-term returns you need to meet your goals
- Diversification is a time-tested strategy for helping limit losses, and for smoothing out your investment experience
- The longer your time horizon, the smoother your investment journey and the more likely you are to generate a healthy return

I'M ALWAYS FULLY INVESTED. IT'S A GREAT FEELING TO BE CAUGHT WITH YOUR PANTS UP."

Famed investor Peter Lynch
as quoted on investinganswers.com

STRATEGIES TO CONSIDER

STICK TO THE PLAN

Perhaps the most significant step you can take toward achieving your long-term goals is to set them in the first place. Work with your advisor to paint a picture of your future, and then establish a simple, easy-to-follow plan for making it a reality. It's not difficult, but it does take discipline. Monitoring your progress over time is a great way to stay focused on what matters.

PUT FINANCIAL "NOISE" IN PERSPECTIVE

You may hear suggestions to "ignore" or "tune out" anxiety-inducing market headlines. As humans with natural biases, this is all but impossible. It's not about *ignoring* short-term noise. It's about recognizing it for what it is, and seeing that the long-term picture is more positive.

REGULAR REBALANCING

Connect with your advisor at least once a year to rebalance your portfolio. That means selling some of the "winners" and buying more of the "losers." This practice serves two functions:

- Your portfolio maintains the original asset allocation you established at the beginning
- You force yourself to sell investments that made money (selling high) and buy investments that lost money (buying low)

ALL-IN-ONE PORTFOLIO SOLUTION

Instead of building a portfolio from various individual funds, consider investing in a multi-asset solution, where you can get a fully diversified portfolio with just one decision. You would not need to worry about rebalancing because the investment manager takes care of it for you through the daily operations of the fund.

WORK WITH AN ADVISOR

Households that worked with an advisor for at least 15 years accumulated almost *four times* more financial assets than non-advised households, according to a 2016 study. Perhaps even more eye-opening, the study shows investors who left their advisors between 2010 and 2014 lost 34.2% of their asset values. Investors who kept their advisors saw asset values *grow 26.0%*.

The Gamma Factor and the Value of Financial Advice, Centre interuniversitaire de recherche en analyse des organisations (CIRANO), 2016

ABOUT THESE CHARTS

Use this information to understand more about the charts in this book, including the index names, data sources, and other important facts. Index returns do not include fees; you cannot invest in an index.

For all charts, unless otherwise indicated:

- Data are as of December 31, 2023
- Index returns and dollar values are in C$
- Index returns include dividends
- Index and GIC data are sourced from Morningstar[1]

Page 3: "The struggle to keep up"

U.S. stocks: S&P 500; Canadian stocks: S&P/TSX Composite Index; Global stocks: MSCI World Index; Canadian bonds: FTSE TMX Canada Universe Bond Index. Index data are for the 30-year period ending December 31, 2023. The average investor return is sourced from Dalbar, for the 30-year period ending December 31, 2022, the latest available at time of publication. The average investor return includes the impact of fees, whereas the index returns do not.

Page 5: "Success measured in days"

U.S. stocks: S&P 500. "Best days" are defined as individual days over the period with the highest per cent return on that day.

Page 6: "The good outweighs the bad"

Canadian stocks: S&P/TSX Composite Index.

Page 7: "The big picture is positive"

U.S. stocks: S&P 500. Bull and bear market return data are in US$ and do not include dividends. A "bull market" is defined as a gain of 20% or more from the prior low. A "bear market" is defined as a decline of 20% or more from the prior peak.

Page 8: "The steeper the loss, the harder the recovery"

Chart and calculation by NEI Investments.

Page 9: "Get back on track faster with bonds"

Global stocks: MSCI World Index; 40/60 Portfolio: 40% global stocks (MSCI World Index), 60% global bonds (Bloomberg Barclays Global Aggregate Bond Index, C$ hedged); 60/40 Portfolio: 60% global stocks (MSCI World Index), 40% global bonds (Bloomberg Barclays Global Aggregate Bond Index, C$ hedged).

Page 10: "Longer investment periods mean smoother returns"

Global stocks: MSCI World Index; Global bonds: Bloomberg Barclays Global Aggregate Bond Index, C$ hedged; 60/40 Portfolio: 60% global stocks (MSCI World Index), 40% global bonds (Bloomberg Barclays Global Aggregate Bond Index, C$ hedged). Rolling returns are calculated from January 1 2003 to December 31, 2023.

Page 11 & 12: "A diversified portfolio to manage risk"

U.S. stocks: S&P 500; Canadian stocks: S&P/TSX Composite Index; Canadian REITs (real estate investment trusts): S&P/TSX Capped REIT Index; Global stocks: MSCI World Index; Emerging market stocks: MSCI Emerging Markets Index; Gold: S&P GSCI Gold Index; Canadian bonds: FTSE TMX Canada Universe Bond Index; Global bonds: Bloomberg Barclays Global Aggregate Bond Index, C$ hedged; 60/40 Portfolio: 60% global stocks (MSCI World Index), 40% global bonds (Bloomberg Barclays Global Aggregate Bond Index, C$ hedged). The 60/40 Portfolio was rebalanced quarterly.

Page 13: "The cost of capital protection"

Inflation data sourced from Stats Can. Unlike mutual funds, the return and principal of a guaranteed investment certificate (GIC) is guaranteed.

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