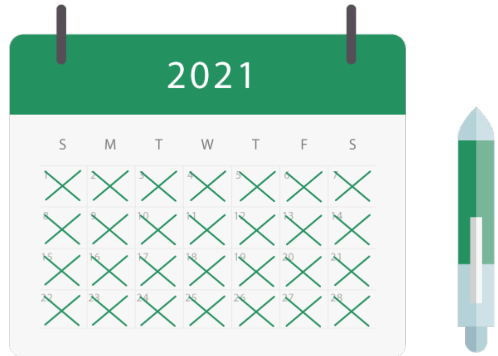
Four financial reminders from 2021

Over the last year, billions of people around the world got vaccinated against COVID-19; global economies started to reopen after unprecedented lockdowns; never-before-seen supply chain backups caused problems for retailers; rising inflation put pressure on prices, and…more. It was, in a word, eventful.

For those paying attention to their portfolios, the market ups and downs of 2021 offered up a crash course in investment education. We compiled four helpful reminders from the year that can serve you well in any economic environment.



Markets are unpredictable

After a blistering rebound in 2020, many investors entered the year wondering if the market was due for a comedown. With various COVID-19 variants popping up and inflation rising, many continued to have a sinking feeling that markets would stall. Yet, that's not what happened—at the time of writing as of December 21, America's S&P 500 was up nearly 25% since the start of the year, while Canada's S&P/TSX Composite Index climbed by just over 19%. The lesson? You never know where the market will end up over the course of a year. Rather than make a guess trying to predict market outcomes in the short term, stay invested in a diversified portfolio and focus on the long term. As bottom-up investors, we believe investing in solid, wealth-creating businesses run by strong management teams can help with portfolio resiliency.

Don't time the market

Given that stock prices are unpredictable—stocks dropped by about 4% in mid-May because of worries over the Delta variant, only to rebound a few days later—you don't want to try to time the market. That's when you pull money out of a portfolio in anticipation of a drop and then try and put that money back in at the market bottom. The difficulty is that you never know when equities will dip or when's the right time to reinvest. Not to mention, you have to be right twice: you have to sell at the top of the market before reinvesting at the bottom of the market. Getting it right once, let alone twice, is highly unlikely.

Don't underestimate bonds

You may have noticed that your fixed income returns were a bit more muted this past year. That's because yields on 10-year government bonds in Canada and the U.S. have climbed by about 93% and 53% respectively, as of December 21, and when yields climb, bond values tend to fall (and vice versa). Naturally, that's frustrated many people—some of whom are now questioning why they should hold bonds if rates will continue rising, as some expect them to do. As we've learned from past market declines, though, there's a lot more to bonds than returns. High-quality (investment grade) fixed income securities tend not to fluctuate nearly as much as equities, while their prices typically rise when stocks plummet. The lesson here is to think of risk management rather than just returns. Yes, bond prices may not contribute much to your portfolio's overall value if yields continue to rise, but they help balance out the market's ups and downs. In short, bonds can act as a shock absorber when you most need one.

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Make decisions with a clear mind

It's easy to make rash decisions when you're stressed or excited, which is something many people did during the pandemic. Some investors sold their stocks because they were too worried about a market decline or bought into bitcoin because a friend tripled their money. The best financial decisions are made with a clear head, and when you give yourself time to think and plan. So be mindful of your emotions, keep your goals in mind, and try not to make any big moves under pressure.

While we can't know what 2022 will bring, if you return to these four reminders, be prepared for the worst-case scenario rather than predict the next outcome, then your portfolio is more likely to withstand whatever uncertainties unfold.

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