Five financial learnings from 2022 to take into 2023

Addressing these will help fortify your financial plan for the new year—and beyond.

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2022 was a difficult and volatile year for many investors. To help you bolster your financial plan and portfolio, we rounded up five important learnings that will serve you over the long term.

Stay invested

Many investors' first reaction to falling asset prices is to sell their holdings. Unfortunately, that tactic tends to result in locked-in losses. History shows the biggest gains usually happen as soon as markets hit bottom. But picking a bottom (timing the market) is nearly impossible. The chances to do it once and successfully are slim, but to then repeat that strategy consistently throughout varying business cycles and market conditions, over your investment time horizon? Infinitesimal.

And there is also the flipside to consider: increasing risk by being out of the market at the wrong time—then trying to get back in. It's likely you might miss the opportunity to fully participate in an upswing and potentially impact your portfolio growth over the long term.

The more reliable strategy, historically, is to stay invested, revisit your asset mix, and keep adding to your holdings as you would at any other time in the market cycle, if you have the means to do so.

Read more about why you should stay invested, even during volatile markets.

Understand the impact of inflation

It's bad enough that fast-rising prices affect your cost of living now. But that cost-of-living increase will be magnified over several years, meaning it raises the bar for future financial goals. If you used to think you needed $1 million to retire comfortably, after a decade of 5% inflation, it may look more like $1.6 million. This is why it's important to review your financial plan regularly with your advisor. You may find you need to adjust your savings level or retirement date.

Read more about how inflation can impact your investments and your wallet.

Revisit your retirement budget

With inflation affecting your retirement savings needs and interest rates much higher today than where they were at the start of 2022, consider reworking your retirement budget. Tally up the monthly expenses you'll have once you've quit working and factor in a steeper inflation curve. Compare that with your expected income sources including Old Age Security, Canada Pension Plan, workplace pensions, and personal retirement savings. This might also be a good time to double-check if your private pensions are indexed to inflation. Does your projected cash flow still balance? Or do you now have a shortfall?

If you have a gap, how is it going to be closed? Higher savings, adjusted retirement date, part-time work in retirement, reduced discretionary spending? Here again, a financial advisor can help project the numbers and adjust your plan in a way you can live with.

Read more: 5 questions to help you prepare for retirement

Take the emotion out of investing

Our emotions tend to influence our decision-making—and, especially in challenging market conditions—not usually for the better. Humans are wired with many biases that can run counter to our best interests, especially when it comes to finances. For example, **loss-aversion bias**, where we tend to obsess more about the money we lost than the money we gained. This imbalance leads people to sell when asset values fall and, sometimes, miss out on good opportunities. Other biases that lead investors astray include **home-country bias** (overrepresenting domestic stocks in your portfolio), **recency bias** (reacting to market experience only from the last few years), and **confirmation bias** (giving greater importance to evidence that supports your existing view).

For example, last year's market volatility made it easier to forget that the S&P 500 was in positive territory seven years out of the last 10. And, out of those seven, six were double-digit returns—three of which were more than 20%. The tendency for many investors was to focus on the 19% drop in 2022 (recency bias in action) and lose the long-term perspective that typically, over time, markets trend upwards and pull backs are normal.

The best way to mitigate cognitive biases and keep that long-term focus is to systematize your investing process: working with a financial advisor to formulate a financial plan and investment strategy and then sticking to them.

Read more about how our deep-rooted behaviours impact the way we invest.

Build a more fruitful relationship with your financial advisor

If 2022 taught us anything, it's that it's important to have a financial advisor who can keep your budgets, plans, and investments on track. Yet, many investors shy away from notifying their advisor about significant life updates (e.g., new child, divorce, job change, etc.) that could affect their finances, or, pressed for time and/or daunted by the complexity of the investing process, don't reach out as often as they could with worries.

To fully benefit from professional advice, it's important to treat your advisor like a trusted confidant: be honest and forthright; take the time to review your statements and any content your advisor may share, such as newsletters or commentary; ask questions, and reach out when you have a concern—not wait for your annual review. Being engaged will help head off problems before it's too late and create a sense of comfort—and a bit more confidence—around your finances.

Read more about how to effectively work with your financial advisor.