Special

Part 1 of a 2-part series

EASY MONEY

Managing your portfolio in turbulent times

In response to the long market correction of June 2008 through March 2009, many Canadian investors paused – and then migrated en masse into cash assets, such as high-interest savings accounts and money market funds. "In the aftermath, over $200 billion more moved into deposits," says Goshka Folda, senior managing director of Investor Economics.

In 2009 and 2010, many sectors of the market saw significant gains, but Investor Economics research shows that investors stayed largely on the sidelines. Only at the beginning of 2011 was there modest growth in equity-oriented products such as balanced funds, but even that tepid shift came to a halt when volatility returned in the second half of the year.

While a preference for safety over returns is a common emotional response to volatility, the timing of the 2008-09 market decline was also significant, Ms. Folda says. "Many Canadian households are in the critical 10 years before retirement, so they're particularly cautious about returning to the equity market."

That leaves Canadian boomers in a catch-22: the return on deposit assets is close to nil as a result of historically low interest rates, bond values will decline if interest rates go up, equity markets are volatile and retirement is looming. "Ultimately, I think the argument for equities as an important part of the portfolio will re-emerge," she says. "It's essential to consider the whole picture. There are many products on the shelf and avenues to good guidance to help manage market volatility."

Typically, market corrections lead investors to re-evaluate their portfolios and conclude that they are over-invested in equities, says Mark Neill, president of PH&N Investment Services. "Sometimes that re-evaluation is valuable, but it really should happen before the market correction. Even if you ultimately decide that you should reduce your equity holdings, it may be wise to wait for the market to recover to some degree before making the change."

Ultimately, investing is a mix of emotion and fact, but if a market correction is the catalyst for a portfolio evaluation, emotions can end up driving the process, he says.

The key to success is the ability to elevate your perspective above the emotions triggered by a correction and to look objectively at your personal circumstances. "The question is how you should invest to meet your goals, and the answer to that question is just math," Mr. Neill says.

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> **Goshka Folda,**
> *Senior Managing Director, Investor Economics*

Some investors may find that when they consider their assets, time horizon, tax rate and assumed rate of returns, they don't need to take on additional risk. At the other end of the continuum, if the calculations reveal that your portfolio should be 90 per cent invested in equities, based on your current assets, savings rate and retirement goals, and that isn't comfortable, you may have to re-evaluate your goals, he advises. "The alternative is to invest in a way that isn't 100 per cent comfortable – some investors may choose to invest in 90 per cent equities and ignore their account statements."

It's important to develop a plan and make investing decisions that are pragmatic rather than emotion-driven, Mr. Neill adds. He notes that investors also need to decide what form of service and advice they want to use when investing, in light of their interest, experience, knowledge and available time. "Then it's essential to stick with their plan, regardless of markets, unless their personal circumstances change."

For investors who are taking more control of their portfolio decisions but feel it would be helpful to have some professional advice from time to time, PH&N Investment Services provides a valuable option that's unique in the market. "We provide the low-fee funds that many investors are seeking these days, with some advice should they require it," says Mr. Neill.

ADVICE

The retiree debt challenge

The next five to 10 years are critical to retirement security for a large sector of the Canadian population, and they're grappling with a challenge that has never before been part of the retirement planning picture: heavy debt.

"We see a lot of coverage in the media, warnings from Bank of Canada Governor Mark Carney and the Minister of Finance about the level of household debt," says Goshka Folda, senior managing director of Investor Economics. "Our research suggests that, while the parents of baby boomers have largely entered retirement close to debt-free, baby boomers are incurring a heavy debt load on their household balance sheets. That's particularly true of households in the second part of the baby boom."

That's worrisome, because in the 10 years before retirement, discretionary income is normally dedicated to retirement savings, she says. "Rather than investing and cementing the retirement nest egg, cash flow will go toward addressing debt issues."

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