6 ways to help your RRSP through volatile markets

Here are some portfolio strategies experts suggest for uncertain markets

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If there's one constant investors have faced over the past few months, it's been volatility. The swings have been downright wild at times, as headlines about one debt crisis after another and increased computer-driven trading systems around the world sent markets whip-sawing.

The benchmark index of the TSX recorded gains or losses of at least 200 points on 20 trading days in the three months ending Nov. 30. In one September week, the index lost 925 points, or almost 7.5 per cent. On one day (Sept. 22), the range between the high and low readings for the index was a stunning 535 points – or almost five per cent of the index.

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The peaks and valleys were often even more pronounced in New York, where the Dow Jones industrial average moved more than 400 points on four consecutive trading days in September.

Sharp moves like that have prompted some nervous investors to sell equities and move to the sidelines.

Mutual fund industry figures show that Canadians lightened up on their equity fund holdings by $9.25 billion during the first 11 months of the year. More than a third of that selling took place in October and November.

The bad news is that experts say the big jumps up and down aren't likely to go away any time soon.

"I think volatility is here to stay," says Marc Lamontagne, a certified financial planner at Ryan Lamontagne Inc. in Ottawa. "It's the new normal."

It's the sharp market drops that really bother investors, he says, citing research that the pain of a down market is felt twice as much as the joy of an up market.

So how are investors supposed to cope with a market that seems hell-bent on scaring the pants off them and their portfolios? Here are some strategies the experts suggest.

Have a plan

The experts CBC News spoke to were unanimous on the need for a plan that takes volatility into account.

"I meet so many people who don't have an investment plan – who won't have an intentional allocation to bonds, stocks, cash," says Edmonton-based financial educator Jim Yih.

Having a plan is one of the best ways to increase your probability of investment success in the long run, he says.

"It's hard not to pay attention to the swings," Yih acknowledges. But having an overall investment strategy and target asset mix makes it easier to avoid being caught up in the emotions of a plunging market.

Sticking to that plan, of course, is a critical part of coping during the big slides.

Risk tolerance

Yih also says investors would be well advised to figure out their risk capacity – how much risk they need to take to reach their goals. This is not the same as the usual risk tolerance measures financial companies use, which he says "test how much risk you want to take."

In addition to a financial plan, some advisers we talked to mentioned the importance of having an investment policy statement (IPS). This document determines how investment decisions are made.

"The IPS gives you your rules for managing your investments, and when you believe in your rules, you will be better able to manage your response to wild market swings," says Warren MacKenzie, CEO of Weigh House Investor Services.

But he notes that an IPS still isn't offered by many financial advisers, so you may have to hunt around.

David Chilton, author of *The Wealthy Barber Returns*, points out that people often think they can handle a lot of volatility – in other words, a lot of risk. That is, until the market actually undergoes a severe correction.

"Figuring out how much volatility you can stomach ahead of actually experiencing that volatility is an inexact process," he writes. "For most of us, it's less than we think."

Revisit "buy and hold"

Is the investing concept of "buy and hold" through thick and thin really dead? Some advisers think it's time to at least revisit this familiar maxim.

"Buy and hold is a great strategy if you are in a bull market," Warren MacKenzie says. "But if we're in a secular bear market – and I believe we are – buy and hold is the worst strategy."

Now is the time to hire a professional manager who can buy and sell to take advantage of that volatility, MacKenzie says.

"You must realize that to be a successful investor, you have to buy when the news is bad and when other investors are selling," he adds.

Look at volatility as an opportunity to make money, MacKenzie says, because most people sell when the market drops and buy when it's near the top.

Hiring someone to carry out your buying and selling also allows that third party to be the sober second thought your first impulse to panic needs – someone who isn't as emotionally involved with your money as you are.

Buy on dips

Some advisers aren't quite willing to entirely write off the buy and hold philosophy, but do agree that market dips can uncover good quality stocks that have gone on sale.

"Volatility can represent a buying opportunity if the fundamentals are sound and the price has dropped," says Cherith Cayford, a principal with Victoria-based CMG Financial Education.

Cayford isn't ready to declare buy and hold dead just yet. "It still makes sense for quality blue chip investments."

But she adds that it's vital to have cash available for those market opportunities that dips can produce.

The buying doesn't have to be an all-or-nothing process, either. Instead of biting off more than you may be able to chew, you can nibble – investing a portion of your cash when the investment drops to an attractive level.

Seek out less volatile investments

There are plenty of other investments that historically don't tend to move as dramatically as the stock market as a whole. So don't be surprised if your adviser suggests an increased allocation to alternative products or asset classes to reduce the riskiness of your portfolio. Government bonds, for instance, tend to be much less volatile than equities. But be aware that even long-term government bonds aren't yielding much these days.

Utilities, telecoms and real estate investment trusts (REITs) are all less volatile than the dominant TSX sectors of energy companies and financials, while still paying reasonably high dividends. Preferred shares also fall into this category.

Ignore the daily news

For some investors who can't escape the daily litany of depressing economic stories, some advisers suggest that turning a blind eye to the latest swings may be the best coping strategy.

"Headlines can certainly be disconcerting," admits Marc Lamontagne. "You have to focus on your long-term goals."

"In some cases, I have recommended clients stop opening their quarterly statements."

This is, he points out, not a good long-term strategy for people who don't have a professional managing their investments.

These days, the do-it-yourselfers need to pay even more attention.