

## Should you stay invested in the market?

While there has been a very strong equity market rally through the spring, overall the last year has been tough on investors. And certainly everyone has probably grappled with either selling and getting out of the market or holding for the long term. It's not an easy question to answer, and issues such as your age and income complicate the matter even further.

Emotions also play a role in investment decisions. That's why you should always undertake a dispassionate analysis before making an investment decision. For example, the following charts suggest investors who ignored market turmoil and held for the long haul made the right decision.

### Market cycles, emotions and investing

As the chart below illustrates, most people in the market ride a rollercoaster of emotions. We're happy when our investments are doing well; crushed when they sell off into a market correction.

But if you follow the green line left to right across the bottom of the chart below, you'll find that the investor who held through a number of market corrections, came out ahead.

Emotions play a major role in investment decisions



### What would Warren Buffett do?

Just ignore it. That's the advice that Warren Buffett often offers investors when they ask him about turbulence in the market. Buffett, known as the Oracle of Omaha for his investing prowess, has been through many ups and downs. The prophets of doom, he says, will scare people out at the bottom and greed will keep them in at the top. His solution: Just make sure you have good companies in your portfolio and they'll rebound with the economy and the market.

## What to do when markets gets rough?

Volatility? . . . Warren Buffett offers **3** steps



- 1) Turn "off" the stock market
- 2) Don't worry about the economy
- 3) Buy businesses, not stocks

Timely advice:

*"The basic ideas of investing are to look at stocks as businesses, use market fluctuations to your advantage, and seek a margin of safety."*

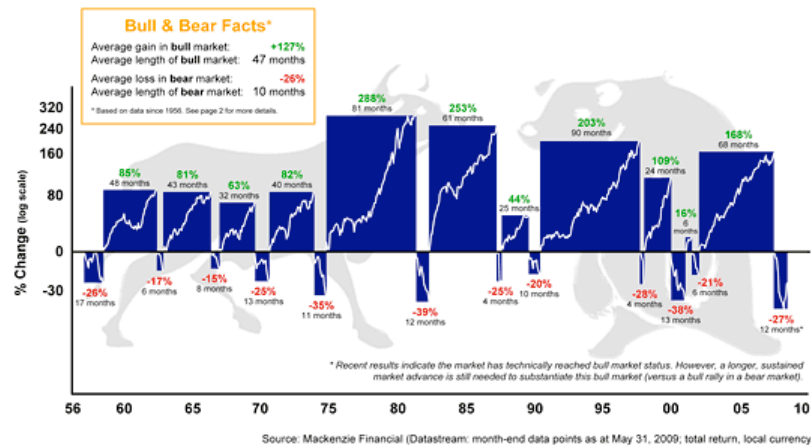
— Warren Buffett, 1994

Source: The Warren Buffett Way, Robert G. Hagstrom 2005

### Is Buffett right? Will the market recover?

Let's answer that by looking back at the last 50 years of market history. When you do, as the chart below indicates, two things become evident: Bull markets tend to be much longer than bear markets and the stock markets inevitably move on to new highs.

## Bull & Bear Markets S&P/TSX Composite Index to May 2009



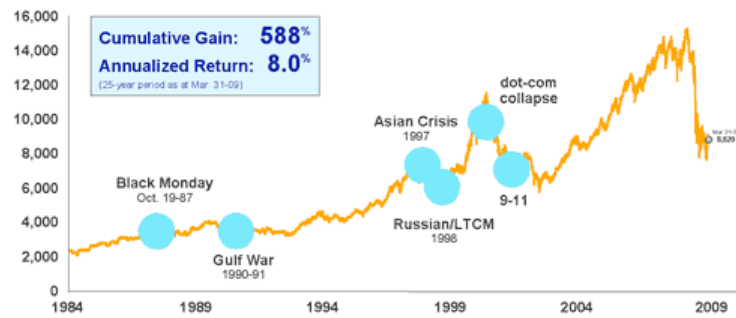
### But is it different this time?

Only history can tell us for sure whether the current global meltdown will pass with the market hitting new highs. But we do know that the market has sold off in past financial storms (see the blue circles in the chart below) and rebounded. So unless history has been repealed we should see new highs again. But exactly when the market will regain the summit is impossible to say.

## History has demonstrated . . .

### After every downturn – markets rebounded to new heights

S&P/TSX Composite Index over 25 years (Mar. 31-1983 – Mar. 31-09)



Source: Morningstar, as at March 31, 2009

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### Can't I just time the market?

So far, nearly two centuries of market history has yet to produce an investing guru who could step out of the market just as it was about to correct and step back in at precisely the market bottom. And when you try to, studies show that you end up being out of the market precisely when the market is rallying.

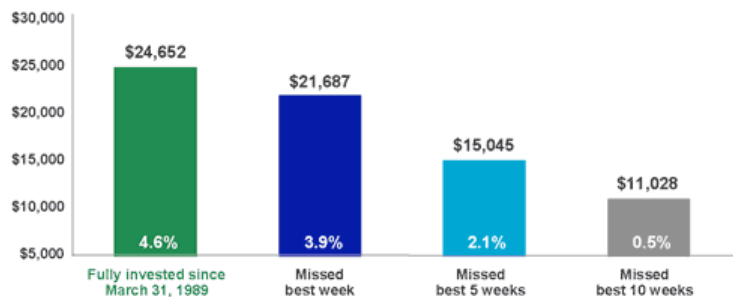
This is in part due to the fact that most market gains come in short periods, making it impossible to predict when a rally will occur. The chart below compares what would happen if you stayed invested, against being out of the market on its top-performing weeks.

### Not an option

### Market timing can be costly

#### Investors can't afford to miss the best weeks

Value of \$10,000 invested over 20 years (March 31, 1989 – March 27, 2009)



Source: Mackenzie Financial; Datastream; S&P/TSX Price Index, March 27, 2009

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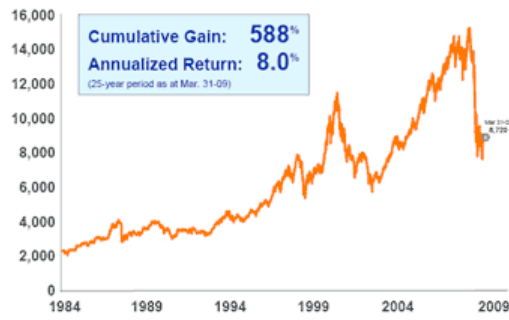
### Why not just stay invested in the money markets?

You could stay invested in money markets, but it will prove costly because GICs and T-bills just can't compete with the returns on stocks over the long haul. As the chart below illustrates, the S&P/TSX Total Return Index returned 8% annually over the last 25 years.

# Equities outperform over the long haul

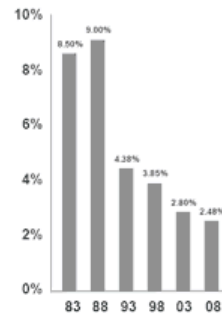
## No substitute for long-term equity returns to build wealth

S&P/TSX "Total Return" (25-year period as at Mar. 31-09)



Source: Morningstar, as at March 31, 2009

GIC Rates (5-year term)



Source: Bank of Canada  
(rates as at Dec. 31 of each year shown)