Investing Resolutions for 2016

By Dave Paterson, CFA
January 8, 2016

With the markets off to one of the, if not ugliest starts in history, I thought it might be a good time to talk about some New Year's resolutions you can make regarding your investments.

1) Focus on the Long-Term –There is always a lot of noise in the investment markets. Pick up any paper, turn on any news report and you're sure to hear about China, or the Mid-East, or oil, or the dollar, or ISIS or whatever. All of these factors can have a significant effect on investor sentiment and can move the markets in either direction depending on the tone of the news. But when you really strip it all away, those are really just noise –distractions if you will. They have very little bearing on the longer term direction of the economy, and ultimately earnings and cash flows, which are the things that drive investment markets higher. So yes, China is struggling, and that will have a short term impact to energy and the emerging markets. But it will likely only be a minor blip over the long term.

2) Focus on your Investment Objectives and Risk Tolerance –This is more or less another way of saying stay focused on the long term. They key is to make sure you have a portfolio that is built with your specific investment objectives and risk tolerance in mind. If that's the case, you should be comfortable with your portfolio, over the long term. Yes, markets will be volatile, and that is only expected to ramp up in the year. However, if you are saving for retirement and its 20 or 30 years out, what happens today will have very little bearing on your long-term success. However, pulling your money out of the market and missing out on the turnaround can really hurt you.

3) Stay Invested –Unless you have a time horizon of three years or less, there isn't a lot of good coming out of trying to time the market. Studies have shown that there is very little value that can be added by trying to time the market, and in fact, most will end up actually taking value away by their mistimed traded. That doesn't mean you shouldn't be rebalancing or making moves in portfolios when necessary, but more don't try to get too cute in timing your entry and exit points.

4) Simplify –If you are using mutual funds or ETFs for your portfolio, you will be very surprised to see just how few funds you need to make a very well diversified portfolio. There is no need to carry three or four Canadian equity funds, two or three U.S. equity funds, four or five global equity funds, five or six bond funds, and a bunch of sectors. You can get a pretty well diversified portfolio with just five to eight funds in total. And with Sectors, you would be surprised to see how little value adding additional sector exposure to your portfolio actually makes. You are more often than not better off with a well-managed, active fund where the manager is likely to make those sector calls on your behalf.

5) Focus on the Portfolio –Instead of trying to build a collection of the "best" funds, look to build a well-diversified portfolio that is made up of funds that work well together. They should offer different asset class, sector, geographic and market cap exposures, and there should not be a lot of overlap between them. And don't get too hung up if one or two of your funds are underperforming, if the portfolio as a whole is doing what it is supposed to do.

6) Look Ahead –If you look at the fund flow numbers of mutual funds, you will see that more often than not, last years winners are the funds that attract the most assets. Unfortunately for investors however, most of the easy money has already been made, and they are all piling in after the fact. While historic performance can be helpful in identifying managers who are better than their peers, it is not a good indicator of future performance. So rather than trying to pick the next hot fund by buying last years winners, instead, focus on high quality, well managed funds that will work in your portfolio.

7) Rebalance –Rebalancing is a great way to force you to buy low and sell high. It forces you to sell some of your winners, taking profits, and putting the proceeds into funds that have underperformed recently. The result of doing this over the long term is a portfolio that is more likely to deliver stronger risk adjusted returns than a portfolio that is not rebalanced. Following these seven resolutions will help you reach your goals over the long term. Unfortunately, losses will happen, but with a disciplined process and plan in place, you are more likely to experience lower drawdowns and less volatility over the long term. And if you have matched your portfolio to your needs and risk comfort level, you should still be able to sleep comfortably at night, even in markets like we have experienced so far in 2016.