HOW TO RUN FAST WHILE STANDING STILL

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Looking forward, that's what we're accustomed to. We occasionally look back to remember the good times with a smile on our face. Sometimes we recall the bad times, reflecting on how much worse it seemed back then and how time and wisdom have taught us so much. Never is this truer then with the investments we make. This aspect of human nature makes a sideways market hard to deal with. The lack of momentum in one direction or another can lead to anxiety over whether to put or even keep assets invested. Given this, how should we deal with markets that appear to be taking a break from going anywhere. Here are some ideas that have helped investors navigate sideways markets over the years.

BE LESS ACTIVE AND MORE DECISIVE

Sideways markets create an allure to "time the market". This is often a trap as it's a very difficult strategy to execute successfully over time. As an example, an investor who missed the 10 best days on the S&P 500 between September 1st,1992 and August 31st,2022 would have underperformed the index by (-2.76%) per annum over 20 years. [i]On a $1 million investment, this would have meant missing out on $723,780 during that time frame. That said, in a sideways market investors do still need to be active value investors. Past bull market valuations may not be attainable for a long time in the future. Therefore, investors need to consider how the E (earning) in the P/E (price to earnings ratio) is likely to hold up. A strong sell discipline is important in any market, but it is even more critical in sideways markets. Considering the future prospects more than the past is good advice on knowing when to cut ties.

GO GLOBAL

When faced with less opportunities domestically, investors can increase their opportunity set by looking to global markets. Having a larger pool of investments to choose from will not only improve the prospects for better returns, but it can also have the effect of lowering volatility. The business cycles in different markets and industries can vary. The added layer of diversification can help to reduce the volatility of returns. Global markets can also offer investors a way to enhance their returns by raising the bar in the selection criteria for the assets that make it into their portfolios. Having more investments to choose from can alleviate the urge to select a marginal investment just because it fit the right box we are used to operating in.

WHAT ARE MY ALTERNATIVES

Alternative investments are a growing segment within the wealth management industry. Alternatives can offer greater diversification, higher yields, and access to differing return profiles. Products include, but are not limited to, infrastructure, hedge funds, structured notes, real estate, and private equity. While adding alternative investments into a portfolio might be a good idea, it does add layers of complexity including liquidity concerns and transparency. Investors feeling out of their depth in this area would be wise to seek the help of a professional to aid them in finding the right products to meet their needs.

REMEMBER YOUR GOALS

It's easy to forget that everyone's time horizon and motivation for their investments are different. In rising and falling markets investors can sometimes lose track of why they made the investments they made in the first place and subsequently start comparing their portfolios to some arbitrary benchmark. Sideways markets can offer a unique opportunity to reflect and regain perspective on what we are trying to achieve with our investments. In a recent interview, Nicholas Galarnyk, Founder and Financial Literacy Evangelist at Optionfinity, stated: Traders need to be guided by their goals. They should be asking themselves if trading today is at all necessary. As a guiding principle, every action one takes should be to accomplish the end goal that the trader originally had in mind. There needs to be a reason that follows a process. This removes emotion which generates more consistent and better results. [ii]

I've heard it said that sideways markets are hope killers where investors feel like giving up on owning stocks altogether. When bull markets are riding high everything is great, but when the bear markets attack, we defend and wait for the eventual hibernation. It's during that long sleepy time that secular bull markets are born. Sideways markets are the times when investors get to reflect and be decisive about the goals they have for their investments. The path they are on, and the long-term strategies they will use to manage risk and achieve their goals. It is the choices we make in these moments that are often the difference makers down the line. This author hopes your journey heads where you intended. If you find you need some course correcting, the flat road we are travelling on now may be just what was needed to adjust course and get back on track.

[i] The perils of trying to time volatile markets - Wells Fargo Investment Institute

[ii] Interview with Nicholas Galarnyk at FCP, Toronto, ON May, 2023