# When Volatility Arrives, Optimism is Key!

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The focus here is on you as an investor! What do you bring to the table in terms of investment experience and personal temperament (emotions) that impacts your investment returns and satisfaction while building your nest egg?

October is a seasonal time of the year when investment markets often decline as part of a normal process of progress over time. This is not to say that markets will correct, just that many people associate this month with volatility. A key to investment success over time, is to train your emotions to handle the uncertainty (natural and normal ups and downs) of the economy, life, and the investment markets.

The best time to start investing is early in life. When you have a long-term financial plan and many years to go before retirement, you are ideally positioned to handle market corrections and the emotional stresses that come with market volatility. This is where your investment advisor can offer support and encouragement to keep you focussed on the long-term game plan.

We have seen emotions undermine both beginner investors and those who have accumulated significant assets of over $1 million. A beginner investor starting out with $10,000-$30,000 is often concerned with losing part of their assets to a market correction. The coaching for this investor is to have them focus on the long-term objective of building assets that will generate retirement income of about $50,000 per annum (This is the amount that media surveys quote as the desired retirement income of the average Canadian.).

If our beginner investor's portfolio dropped 10% during a market correction, they can easily make up this decline through additional savings of $1,000 to $3,000. And when they continue buying investments during a downturn, they are getting their favourite investment funds for a "sale price". This is the same behaviour as buying toilet paper on sale in anticipation of a need six months or a year down the road.

A good rule of thumb in building assets is that, in the beginning, your savings rate is more important than the actual investment returns. Once your asset values grow to around three times your annual earned income, then investment returns and your savings rate become equally important.

Finally, as investment values grows to a substantial level, then investment returns matter the most. While monthly saving continues to play a role, the impact of new savings on overall capital accumulation may be very small in term of the overall portfolio returns. That is why investing for capital preservation plus returns for larger portfolios, ($500,000 +) may become the primary focus.

The challenge for a nervous investor with a large portfolio ($1 million or more) is that it often becomes more difficult for them to manage their emotional responses to market volatility... without professional advice.

Those who gather a large amount of capital through the sale of a business, or a wind fall or inheritance later in life (in their 60's or later) often allow the fear of loss or running out of money during retirement, interfere with long term investment planning principles.

That is why, we often recommend parents train their teens to handle money and make their mistakes when they are young and only have a little capital to invest. For example, you can give a university student their annual spending money for the school year in one lump sum. This will teach them about budgeting, cash flow management and discipline. The worst that can happen is they run low on money before the school year ends and they must live off Kraft Dinner for a while. It is better to learn these types of lessons early in life than later - when a large inheritance arrives, and the consequences of mismanagement are more severe.

The key to successful long-term investing is to keep your present situation in perspective and be optimistic that you can respond to any circumstances that life throws at you.

Call us today for a review [1] of how we can help you on your path towards financial success!



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