Investing in Unprecedented Times
Putting your uninvested cash to work

At a Glance

- If you have cash on the sidelines, investing the entire amount may be the best approach.
- Success of this strategy is dependent on being able to stick with a plan, by staying invested, even during periods of volatility.
- If anxiety puts you at risk of deviating from that plan, investing over a period of time, or dollar-cost averaging, is an alternative strategy that can also deliver positive results.

While the global pandemic and its economic repercussions are unprecedented in many ways, market volatility is not.

Many investors are currently contemplating the best time to get off the sidelines and invest—operating with a belief that the summer or fall will present better opportunities to deploy cash than the current uncertain environment. But history has shown us that trying to time the market and achieve consistent results can be challenging.

“I’m going to let you in on a secret. I’ve been doing this for 20 years and I am still no better at picking the bottom. It's next to impossible.” Michael Craig, Managing Director & Head of Asset Allocation and Derivatives at TD Asset Management Inc.

Since the spike in volatility started towards the end of February, we’ve been frequently asked about what the best approach is when it comes to investing a lump sum of cash.

Every individual is different, and any conversation should start with an understanding of your time horizon, investment objectives and risk tolerance.

“I’m going to let you in on a secret. I’ve been doing this for 20 years and I am still no better at picking the bottom. It’s next to impossible.”

Michael Craig, Managing Director & Head of Asset Allocation and Derivatives at TD Asset Management Inc.
Three approaches that have stood the test of time:

Good - If you’re invested, stay invested

Historically, equity markets have risen more than they’ve fallen, and the data speaks for itself—studies have shown that moving in and out of the market, or market timing, may often mean limited gains and increased losses for investors. Investors have a tendency to sell at the onset of sudden volatility causing many to miss out on any subsequent market rebounds.

Better - If you have additional money to invest, you could consider investing it over time

As you’ll see in the next point—investing your money all at once is usually the best course of action. But the success of this strategy is dependent on your ability to see it through.

Acknowledge your own psychology and financial biases. If the thought of investing your money all at once and potentially seeing it fall in value over the short-term fills you with anxiety and fear, it may not be suitable for you. There may be financial implications associated with investing lump sums if you don’t see it through. You may end up panic selling.

As an alternative, consider investing your uninvested cash over a period of time. While it may not be the optimal choice, this could still be a winning strategy as it takes the guesswork and anxiety out of when to invest. The point here is to get your money invested sooner rather than later. For example, from history, we know that the average bear market (from peak to trough) lasts approximately 17 months. Therefore, one strategy might involve investing your cash position over a period of 17 months to take advantage of the power of dollar-cost averaging, which may allow you to smooth out your purchase prices over time. In a bear market, this strategy may mean that you are purchasing stocks when they are down, possibly scoring better deals.

Best - The optimal approach to sidelined cash is to invest it all now

If you have cash on the sidelines, research has shown that the optimal approach is likely to invest the entire amount. While dollar-cost averaging has its benefits, investing your money all at once as soon as you have it in a portfolio of stocks and bonds may leave you better off the majority of the time as your money is exposed to upward-trending markets for a greater period. Consider the current environment. As shown in Chart 1 below, if you were waiting for a later date to get invested—perhaps waiting for a COVID-19 vaccine to be found—you would have missed out on the opportunity to participate in the recent market rally. From its low on March 23, 2020, the S&P 500 Total Return Index (C$) rallied 27.67%.

Chart 1: Markets Continue to Fluctuate Despite the Pandemic

Source: Bloomberg Finance L.P. As of May 31, 2020. Market return is based on the S&P 500 Total Return Index in CAD.
No one can predict the future of the markets. Waiting for the “perfect time” to invest could cause you to miss out on opportunities and may even jeopardize your long-term financial goals. The alternatives people often turn to, cash or cash-like instruments, offer little value when it comes to inflation protection and growth, especially in today’s environment. A well-diversified portfolio that is periodically rebalanced can give you an opportunity to achieve a greater potential return.

Waiting for the “perfect time” to invest could cause you to miss out on opportunities.

Additional points to keep in mind:

**Equity Markets Rise More Than They Fall**

We all know that equity markets are volatile, and we were quickly reminded of this by the recent pandemic. When this happens over the short-term, we may feel the need to take action, but we should consider the bigger picture. Historically, equity markets rise more than they fall and bull markets are often much longer than bear markets. Since no one can foretell when the next bull market is coming, those investors who remain invested during bear markets have typically benefited from the recovery. In reference to Chart 2 below, don’t miss out on the potential opportunities (in green) by trying to avoid market downturns (in red).

Chart 2: Don’t Miss Out on the Potential Opportunities

Source: TD Asset Management Inc. and Bloomberg Finance L.P. As of April 30, 2020. Market return is based on the S&P/TSX Composite Total Return Index. In the illustration above, green bars represent bull markets and red bars represent bear markets. We classify a price movement of 20% or more (up or down), over any given period, as a bull or bear market respectively.

Waiting for the “perfect time” to invest could cause you to miss out on opportunities.
The Economy is Not the Market

Just because the economy may be struggling, does not mean that the markets will necessarily go down in lockstep. Studies have shown that low economic growth rates don’t necessarily lead to lower market returns\(^2\). Stock prices can increase during turbulent times, as they have demonstrated recently. Government and central bank support globally have attempted to soften the blow of the economic impact caused by the recent pandemic, helping to lift markets. So, while we may be hearing about record job losses and economies shutting down—opportunities in the markets can still present themselves. Look beyond the headlines and be selective in the investments you choose. This is where an investment professional can help.

Emotional Investing Can Lead to Poor Results

It’s commonly understood that emotions can impact our investment decisions. We have a tendency to make snap judgements or decisions based on our emotional state, right or wrong. This behaviour can be amplified by negative headlines. This is particularly important to keep in mind, especially with the extensive news coverage related to the pandemic.

Remember that markets are often resilient and have a tendency to recover from crises. In addition, negative headlines often outweigh positive headlines. Working with an investment professional can help you stay on track with your investment plan and help you avoid panic selling.

Chart 3: Markets Are Resilient and Reasons to Sell Are Often Magnified

TD Asset Management Inc. offers tailored solutions that can effectively help you manage investment risk including the ups and downs of the market.

For more information, please contact your investment professional.

---


The information contained herein has been provided by TD Asset Management Inc. and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual’s objectives and risk tolerance. Index returns are shown for comparative purposes only. Indexes are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index. Certain statements in this document may contain forward-looking statements (“FLS”) that are predictive in nature and may include words such as “expects”, “anticipates”, “intends”, “believes”, “estimates” and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund facts and prospectus, which contain detailed investment information, before investing. Mutual funds are not guaranteed or insured, their values change frequently and past performance may not be repeated. Mutual fund strategies and current holdings are subject to change. TD Mutual Funds and the TD Managed Assets Program portfolios are managed by TD Asset Management Inc., a wholly-owned subsidiary of The Toronto-Dominion Bank and are available through authorized dealers. Bloomberg and Bloomberg.com are trademarks and service marks of Bloomberg Finance L.P., a Delaware limited partnership, or its subsidiaries. All rights reserved. All trademarks are the property of their respective owners. The TD logo and other trademarks are the property of The Toronto-Dominion Bank or its subsidiaries.