Mackie Research Capital Corporation

The Strength In Staying Fully Invested

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**Written during a mercifully brief 2006 downturn in the market, this explains why those who remain fully invested have historically done better than those who pull money out, then try to pick the perfect moment to jump back in. I thought this might be a good time to talk a little bit about short-term volatility and long-term growth.**

As you'll see below in the chart of the Toronto Stock Exchange Composite Index, the market is certainly in a better position than it was at the beginning of 2006, although we have had a bit of a bumpy ride over the last three months:


S&P TSX Composite

(source: Globefund.com)

It's important, however, to remember that these quarterly results are very short term snapshots of the market and should not necessarily influence your long-term strategy.



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Of course, that's easy to say when the quarterly results are positive - as they have been recently - but disciplined long term growth investors know that panicking during periods of short-term volatility can be costly. To illustrate my point, let's pull back and take a look at the bigger 12 month picture for a moment:


1. The market peaks, then falls.
2. Short-term investors "bail out", having taken a 500-point loss.
3. The market bottoms out. Relief.
4. The market takes a breather after a 1,500-point climb that gladdened the hearts of long-term investors. Short-term investors are still in cash and miss out.

S&P TSX Composite

(source: Globefund.com)

Imagine that you had made a snap decision sometime around point 2 on the chart above when the markets were falling in October and cashed out your entire investment portfolio. At this point, you would have sustained a loss of 500 points of the drop between point 1 and 2, but avoided the further 500-point drop that followed between point 2 and 3.

Good decision? Probably not, because now you're no longer in the market, so you miss out on the recovery of more than 1,500 points that came along between points 3 and 4. Rather than trying to make decisions based on short-term market fluctuations, those who took a long-term view and simply stayed invested are now up more than 2,000 points year-over-year.

It is not unreasonable to expect more of this short-term volatility in future, especially considering the role that commodities like oil and natural gas play in the Canadian economy. The monthly statement you just received may show a nice positive number, but sooner or later you may open one and find a minus sign attached. When that happens, I hope you'll keep this letter in mind.