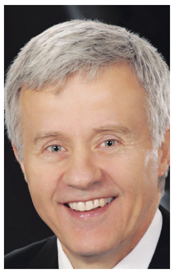
# Avoid economic whiplash and invest for the long term



**Dollars & Sense**

*By Peter Watson*

Perhaps the best advice we can suggest to investors is to stop reading financial news. It is confusing, contradictory and often just plain silly.

There is a conflict of logic and many could argue there is no logic.

A recent *Globe and Mail* headline in the *Report on Business* was *Investors Feel Economic Chill*. I would assume for any investor who read that discouraging news they would be concerned.

Did that motivate some to actually sell a portion or all of their holdings? Likely, the answer is yes.

However, one day later a new headline in the same paper was *Markets Leap as Economic Data Brightens*. So over a two-day period we had two completely different directions on which way the economy was headed.

One day's quotes were all doom and gloom. Comments like "full-fledged correction," "raising fears" and "strategists say the recent declines reflect a collection of negatives."

The Canadian stock market had just completed a three-month decline of close to 10 per cent. That decline followed a 10-month rise in stock prices.

There was a prediction "with the prospects for economic growth uncertain at best, stocks on both sides of the border may have further to fall."

So now let's fast forward by 24 hours and see what happened. The TSX composite index rose slightly more than it had dropped the day before and posted its best one-day gain in nearly a month.

Suddenly the quotes and comments from experts were buoyant such as "the financial markets' enthusiastic about-face on a bite of positive news." There were "renewed hopes" and "better-than-expected retail sales data out of the United States." This type of news mood swing is enough to give investors economic whiplash.

The reality of the stock market is that there are millions of moving parts that affect its performance. When there is a prediction on the future direction of the market, to be fair, the prediction is just a wild guess.

In the long-term the markets have been very predictable. By contrast, in the short-term, they are most definitely not.

There is a useful strategy that investors can use to avoid the normal pitfalls of relying on conflicting periodic news reports and volatile stock markets. Invest for the long term.

You might have heard the popular expression "it is not timing the market, but the time in the market." Short term "noise" can be drowned out by taking a long-term approach.

The best tool available is to have a written Investment Policy Statement. That document will list your investment objectives and break down the diversified portfolio that you should construct.

Consider this document your architectural plan on how to construct your portfolio; similar to architectural plans you might use to construct a house.

It would be helpful to have some historic information about the type of past volatility that your portfolio structure might have had for the past several decades. This will help you manage your expectations.

The Investment Policy Statement is your best tool to help guide your investment logic. This can make you less likely to allow short-term news to control your long-term investing.

If you have planned properly, there is no reason for either case to alter your long-term strategy.

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