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# Steadyhand

## Why you should learn to love sell-offs

By Tom Bradley

It drives me crazy. Whenever we go through a down draft in the stock market, like the one we had at the beginning of this year, investors are universally scared and discouraged. Their mood is inextricably linked to their paper losses and the doom and gloom they're reading about in the media.

I certainly wasn't immune. I was concerned about my declining net worth and what's going on in the world around us - negative interest rates, a slowdown in China, and piles and piles of debt are big issues. But fear isn't an equal opportunity emotion; bad news and weak stock markets impact people differently.

Retired investors who are drawing an income from their portfolio have reason to be concerned. If they haven't got enough cash in reserve, then they're forced to sell holdings at reduced prices. But younger investors who are working and regularly contributing to their portfolio – accumulators as we call them – shouldn't be fearful. What they should be doing is licking their chops, jumping up and down and scrambling to find more money to invest.

What happens is that stock markets overreact to news, both good and bad. The latest black clouds hanging over financial markets might increase or decrease the potential of a stock, but their long-term impact is usually negligible. When CN Rail drops 10% in sympathy with a weak overall market, has the long-term value of the company dropped $6 billion? Has some monthly data out of China really impacted CNR's value that severely? For a portfolio that holds a number of companies spread across different industries and geographies, the underlying value varies very little day-to-day, no matter what the news might be.

So if you're an accumulator who is regularly buying assets, a sharp market decline is a great thing. It's like going to the checkout in a store and finding out that everything you were going to buy is actually on sale. Then you end up buying more shares that you want to own, at a lower price.

Doubters might see my expectations for investors as unrealistic. Are there good reasons why accumulators should be discouraged when markets are down? The three I hear most are: one, prices have further to fall; two, the stock market is broken; and three, I'm investing in my house. Let me address each of them.

*1. At $20, the stock is more attractive today than it was last month, but it could drop even further.*

Of course, built into this view is the assumption that we can determine where the market is going in the short term. Unfortunately, we can't. Nobody can. The stock could go to $17, but could also be $25 next month.

*2. The game is rigged. The Wall Street and Bay Street wheeler dealers are the only ones making money.*

Well, the banks and brokers do make too much money off investors, with some despicable practices mixed in from time to time, but the stock market is not an arbitrary thing. It's made up of real businesses that pay real dividends year after year, and grow their profits over time. There are many simple, transparent ways to get exposure to that income and growth, without being taken advantage of – low-cost mutual funds and exchange-traded funds are prime candidates.

*3. My house is my retirement plan.*

Investors have to manage their overall financial position, and part of doing that is finding a balance between assets and the need for growth on one side of the ledger, and debt and the desire to sleep well on the other. And part of that balance is having a diversified asset base.

A portfolio consisting of a house, with few other assets, is vulnerable to economic shocks, both local and global. To appreciate how cyclical the housing market is, Canadians need look no further than the U.S. a decade ago.

For me, these reasons for passing up a market opportunity don't hold up, especially when comapred to long-standing investment principles that should have accumulators dancing in the streets.

First, the stock market has consistently risen over the decades. Second, it's impossible to predict the ups and downs along the way, but there's always an up after every down. Third, stocks ultimately find their fair value over the long term. The next three years of earnings represent only about 15 to 25% of a company's estimated value. Future profits and dividends are what drive share prices. Fourth, the only free lunch in investing is diversification. It will act to smooth out returns, take the risk of capital loss out of the equation and doesn't negatively impact returns in the long run. And finally, with a long time horizon, accumulators have the luxury of not having to worry because they don't need the money today. Indeed, while other investors are pulling their hair out and making emotional decisions, the disciplined buyer can feast on the opportunities.

If you're an accumulator whose mood swings with the market, it's time to break the pattern. When plummeting markets are front page news and your parents and boss are grumbling about their portfolios, just politely smile and keep buying.

*Tom Bradley is the President of Steadyhand. This article was first published in the June 2016 issue of MoneySense Magazine. Reprinted with permission.*