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Expert Content

INFO
ADVICE

Systematic investing

… or a simple approach to navigating market volatility

Whether they are building wealth, pursuing specific projects or preparing for retirement, investors generally share a common objective: achieving satisfactory returns on their investments.

Yet when stock markets are declining, investors' first instinct is often to step away from equities. Is this the right response? This type of environment can actually offer opportunities to buy stocks at more attractive prices, which makes systematic investing a very relevant tool.

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Note: In this document, the plural (they, their, them) is used to designate both sexes with no discrimination intended and is used solely to make the text easier to read.

The principle of systematic saving

What exactly does systematic investing involve? To answer that question, it helps to take a step back and start with systematic saving. Given how quickly everyday expenses can add up, the principle of systematic saving is certainly appealing. Having a predefined amount withdrawn on a regular basis—whether weekly, biweekly or monthly—to grow one's savings account offers several advantages:

— Automation: By scheduling withdrawals in advance, there is no risk of forgetting or losing discipline.

— Flexibility: The frequency and amounts can be adjusted based on budget, as can the type of account the money is deposited into (RESP, TFSA, FHSA, RRSP, and so on).

— Accessibility: This approach makes saving more attainable, even with a limited budget.

However, holding funds in a savings account will certainly not generate the highest returns. When pursuing goals like buying a home, starting a family or enjoying a comfortable retirement, it's natural to look for ways to grow one's money.

Systematic investing

Although it's possible to periodically transfer funds from savings to invest them, this approach has its limitations. Funds held in a savings account generate little income while waiting to be invested in products such as guaranteed investment certificates (GICs) or mutual funds.

With systematic investing, each contribution is invested immediately in a selected fund, so investors don't have to wait until they have accumulated a larger sum. In addition, given the wide range of mutual funds available, there are options to suit all needs and risk tolerance levels.

Systematic investing offers many advantages that should not be overlooked.

An accessible and flexible approach

With minimum contributions starting at around $25 per payment, this strategy makes investing accessible to everyone, without having to reach the traditional thresholds of $500 or $1,000, as is often the case when purchasing products such as GICs. In addition, the amount allocated to payments can easily be adjusted based on the investor's financial capacity.

Less risk of impulsive decision-making

When markets go down, it can be stressful for investors to see the value of their investments decrease. No one has a crystal ball to predict how investments will perform. By adopting a systematic investing strategy, there is less focus on whether to sell at the first downturn or on finding the "perfect" time to invest. As a result, there is less risk of making decisions that might be regretted later.

A simple, automated approach to saving

Investing a fixed amount on a regular basis eliminates the challenge of choosing the “right” time to buy units. This regularity helps establish a disciplined approach to saving that fits easily into a financial routine. Once automatic withdrawals are set up, all those small contributions can add up to a significant amount by the end of the year. This makes achieving financial goals easier, without feeling like extra effort.

A lower average cost per unit over the long term

Historically, financial markets have tended to grow over the long term. While investing a large amount all at once may theoretically generate higher returns if the market rises, this approach requires both existing savings and the discipline to stay invested during market downturns. By contrast, systematic investing favours gradual accumulation, even in volatile conditions. This makes it a practical and effective solution for maximizing long-term returns.

Making the most of market volatility rather than fearing it

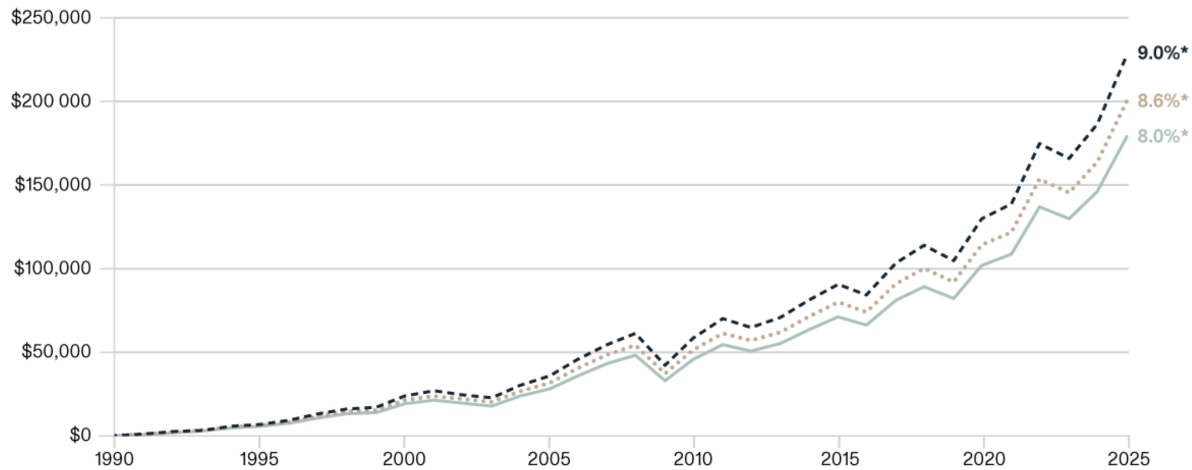
Market volatility often leads investors to wonder when the right time to invest might be. The truth is that there is no perfect time. While certain financial analyses may suggest that an asset is undervalued or overvalued, accurately predicting market fluctuations is virtually impossible.

Avoiding the stress of market timing...

Adopting a systematic investing strategy helps overcome these uncertainties while smoothing the effects of market fluctuations. An investor who followed a systematic purchasing strategy over three decades would have achieved results similar to those of an investor trying to time market lows, but without the stress of market timing.

The following graph illustrates that attempting to time the markets is not necessarily advantageous.

HOW OFTEN DOES MARKET TIMING PAY OFF?



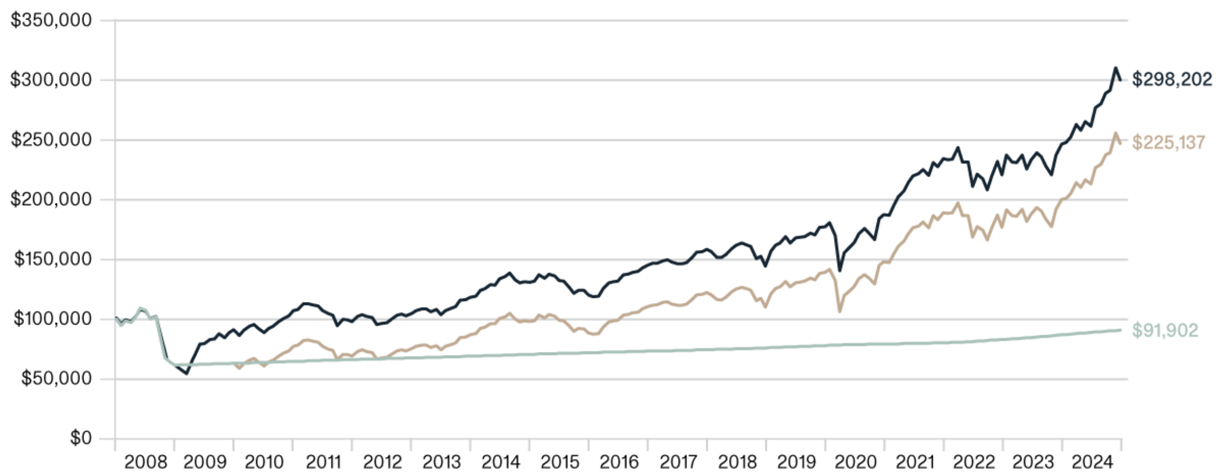
*Annualized rate of return weighted by monetary value. Source: CIO Office (data via Refinitiv), December 1990 to December 2022.

Here, the different curves illustrate the potential returns when purchases are made at the market low for the year (9.0%), through systematic investing at the beginning of each month (8.6%) and at the market high for the year (8.0%). In the long run, saving regularly and staying invested over time have a far greater impact than trying to time the stock markets.

…and the stress of buying or selling everything at the first downturn

The following graph shows that remaining invested during market fluctuations is the better approach. Looking at the two recessions of 2008 and 2020, the comparison of returns highlights which strategy proved most advantageous: staying invested in the market ($298,202), exiting the market and reinvesting one year later ($225,137) or exiting the market and remaining in cash ($91,902).

THE IMPORTANCE OF STAYING INVESTED



*All values represented are in Canadian dollars. Past performances do not guarantee future returns. This graph is intended for illustration purposes only and is not indicative of any investment. Source: CIO Office (data via Refinitiv, National Bank of Canada, C.D. Howe Institute). Total return of the S&P/TSX Composite Index from December 31, 2007, to December 31, 2022.

Examples of systematic investing

Here are a few concrete examples of systematic investing to show how this approach can affect personal finances.[1]

Scenario 1 – The market declines then rebounds

Individual A invests $5,200 in a growth fund at the start of the year, while Individual B uses the systematic investing approach to contribute $200 every 2 weeks in the same fund, for a total of $5,200 for the entire year. The unit value falls from $12.00 at the start of the year to $9.00, before rising to $14.00 by the end of the year.

[1] The data presented in the graphs are assumptions only. The calculations are provided for information purposes only and only serve to illustrate the effects of systematic investments over the investment period under identical conditions. The actual returns of investments may be higher or lower than the scenarios presented, namely according to the nature of the securities and the timing of investments. The data presented do not create any legal or contractual obligations for National Bank of Canada or any of its subsidiaries.

	Individual A One-time purchase (beginning of period)	Individual B Systematic purchases
Total investment	$5,200	$5,200 ($200 X 26)
Average cost	$12.00	$10.80
Units purchased	433	481
Market value	$6,062	$6,734
Difference		**$672**

As we can see in Scenario 1, the systematic investing approach comes out ahead by $672, or 11%. Why? Because when the market declines, systematic contributions allow more units to be purchased. As a result, Individual B ends the year with more units than Individual A, at a lower average cost. Systematic investing therefore works well when the market declines and subsequently rebounds.

Scenario 2 – The market drops

This scenario reflects a situation similar to the one observed in the second half of 2008, when the market—and unit prices—fell by 50%. Individual A invests a lump sum of $5,200, while Individual B contributes $200 every two weeks throughout the year.

	Individual A One-time purchase (beginning of period)	Individual B Systematic purchases
Total investment	$5,200	$5,200 ($200 X 26)
Average cost	$12.00	$8.00
Units purchased	433	650
Market value	$2,598	$3,900
Difference		**$1,302**

Although both individuals show a paper loss at the end of the year, the individual who followed a systematic investing strategy throughout the year is better off. Individual A bears the full impact of the 50% decline, while Individual B ends the year holding a much greater number of units acquired at a lower average cost. In this scenario, systematic investing clearly helps temper the effects of market volatility.

Scenario 3 – The market climbs steadily

In this third scenario, the market performs much more favourably, with the value of the selected mutual fund's units increasing from $6.00 at the beginning of the year to $10.00 by year-end.

	Individual A One-time purchase (beginning of period)	Individual B Systematic purchases
Total investment	$5,200	$5,200 ($200 X 26)
Average cost	$6.00	$7.35
Units purchased	866	708
Market value	$8,660	$7,080
Difference	**$1,580**	

In contrast to the other scenarios, in a rising market it is more advantageous to make a one-time purchase at the beginning of the period, when units are available at a lower price. Individual A ends up holding more units, having purchased them at a lower price at the beginning of the year. Individual B paid a higher average price for their units and ends the year holding fewer of them.

Conclusion

Regular saving through a systematic investing approach combines accessibility, simplicity and effectiveness. Whether used for specific projects or for retirement, this strategy automates saving while helping smooth the effects of market fluctuations. With a process that is easy to put in place, it offers a disciplined approach and sound investment management, making it possible to pursue financial goals with greater peace of mind. For help navigating the options available and personalized guidance on how to get started, it is best to consult an advisor.