COVID-19: How to manage your investment portfolio when stock markets are on the decline

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In the last few weeks, the stock markets have fallen and they remain highly volatile. So it's perfectly normal if you're wondering about your investment portfolio. What should you do? Should you try market timing? We discussed the matter with Jonathan Durocher, president of National Bank Investments. Here are eight tips, suggestions and points of consideration.

1. A stock market crash doesn't necessarily lead to a recession

Firstly, a stock market crash doesn't necessarily lead to a recession. In the past, we've seen several stock market crashes that haven't resulted in a recession.

The stock market, the economy and recessions are all very different concepts. A crash doesn't cause a recession, nor vice versa. A recession occurs when the GDP contracts – in other words, when the economy slows down.

Will we go through a recession? It isn't impossible, but no one can predict exactly when a recession will occur, so beware of "fortune tellers," as Jonathan Durocher recommends.

2. Stock markets can generate profits, even in a recession

During a recession, profits don't tend to be as high, but we're not talking about a 400% dip either. Often, you'll see a 20%, 10% or 4% decline, and sometimes you'll even see an increase.

Another important thing to keep in mind: after a recession, the stock market tends to go up. If you're 20, 30, 40, or even 50 years old, and you've been saving for your retirement, even during a recession stock markets could be beneficial for you.

Our expert points out what happened with the stock market before, during, and after the last several American recessions:

Recession		S&P/TSX Total Return			
Start	**End**	12 months prior	during recession	12 months after	Full Period*
Dec-07	May-09	10%	-22%	17%	1%
Mar-01	Oct-01	-19%	-9%	-8%	-31%
Jul-90	Feb-91	-7%	-1%	7%	-1%
Jul-81	Oct-82	7%	-16%	38%	23%
Jan-80	Jun-80	56%	4%	19%	93%
Nov-73	Feb-75	2%	-10%	12%	3%
Dec-69	Oct-70	-1%	-11%	3%	-9%
Apr-60	Jan-61	-8%	18%	22%	32%
	average -->	**5%**	**-6%**	**14%**	**14%**

CIO Office (Data via Refinitiv). Recession dates are from the NBER.
*Full Period = From 12 months before to 12 months after a recession.

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Note: This data is provided for illustration purposes. It exists within the context of recessions that aren't linked to a pandemic.

3. You can prepare for the possibility of a recession

You can prepare, but it's important to prepare beforehand and not during the recession. Here's how:

- If the recent stock market drop has you stressed out to the point where you can't sleep and you worry whenever you think about your investment portfolio… It's time to contact your advisor so you can review your risk tolerance before a recession occurs and your emotions take over.

- When a recession occurs, people have a tendency to overreact. It'll be all over the media and on everyone's lips. Keep your cool and remember the table above.

- Different asset classes on the stock market react differently during a recession, so make sure your portfolio is truly diversified, which will ensure that you can weather dips in the market and remain invested.

4. Resist the temptation to try and time the markets

Market timing is a strategy that consists of moving out of the market before a major drop, then moving back in once it starts to go up again.

That means there are two actions when it comes to market timing: moving out and moving back in. So you need to be right on two accounts: you need to move out at the right time and move back in before the markets rise too much.

Is it a good strategy? Jonathan Durocher doesn't think so. "Sometimes it's easier to know when to move out, but few are able to move back in at the right time," he points out.

5. Two key ideas: Save systematically and diversify!

Before you do anything else, analyze your portfolio and know that a bad investment for you could be a good investment for someone else.

In a downswing, your best investment is your systematic savings plan. This simple approach helps you invest automatically even when markets are down and generate profit in the long term thanks to compound interest.

The important thing is to have a diversified portfolio. If you have a truly diversified portfolio, you'll always hate something in your portfolio. Every month, some shares will go up and others will go down.

If everything is going down or going up at the same time, it's time to review the diversification of your portfolio with the help of experts. Optimal diversification means that you'll miss out on certain extraordinary profits, but it will also protect you from negative extremes.

6. Leave your emotions at the door when making decisions

Even if people know they should avoid this, bringing emotion into your decision-making process is one of the most frequent mistakes made by investors. It isn't easy to detach yourself from all the bad news, but you have to remain rational, remain invested, and never lose sight of your goals.

"You should never take stock market fluctuations personally," says Jonathan Durocher. "'I'm unlucky.' 'The stock market hates me.' 'I always lose out.' The stock market doesn't take your life goals into account. The stock market isn't a person. It's under no obligation to pay off every time."

A good way to help you manage your emotions in the moment is to remember what you've done in the past. What did you do in 2008? Did you sell everything off? Did you regret it afterwards? Or did you remain invested instead? If so, how much do you estimate you earned?

7. Determine whether the current situation offers an opportunity for you

If you have a long-term investment plan, this may be a good opportunity for you. You have two advantages: time and compound interest. Einstein once referred to compound interest as the eighth wonder of the world. Your systematic savings generate interest that is added to your savings, which generates even more interest, and so forth.

This difficult period is a good time to learn about this topic. Your wealth management advisor can make a valuable impact by teaching you about this rather simple concept.

8. Get used to risk and uncertainty

Be patient, remain invested, and get used to risk and uncertainty.

"Risk often refers to things that you can't see," Jonathan Durocher explains. "Not one economist or major firm indicated in their 2020 projections that a virus would impact the global economy. Risk management 101: in the short term, be careful about taking on too much risk. In the long term, be careful about not taking on enough. Even in times of uncertainty.

Uncertainty is like gravity: it'll always be there. People have said for years that financial markets carry uncertainty. But that didn't stop the markets from generating over 300% in profits in the last 10 years.

We're aware that you may still be concerned about your investments. You're welcome to rewatch our video of experts answering your questions on Facebook here.

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