What Are My Options When the Market is Down?

Severe market declines are unnerving, and understandably cause many investors to reevaluate their options.

Stay put? Cut and run? Add more to my portfolio to benefit from a rebound?

While no single solution is right for every investor, the historical data can provide some insight into which options have the most attractive potential outcomes.

Case study: 2008 financial crisis

The chart and table below track the hypothetical results of four typical investor responses to the financial crisis of 2008. For an apples-to-apples comparison, we make the starting assumption in each case of a $100,000 investment in Canadian equities right before the market dropped.

Option 1: Stay the course

No selling or adding to the portfolio.

Option 2: Sell and reinvest in one year

Liquidating the entire portfolio and reinvesting a year after the market bottoms.

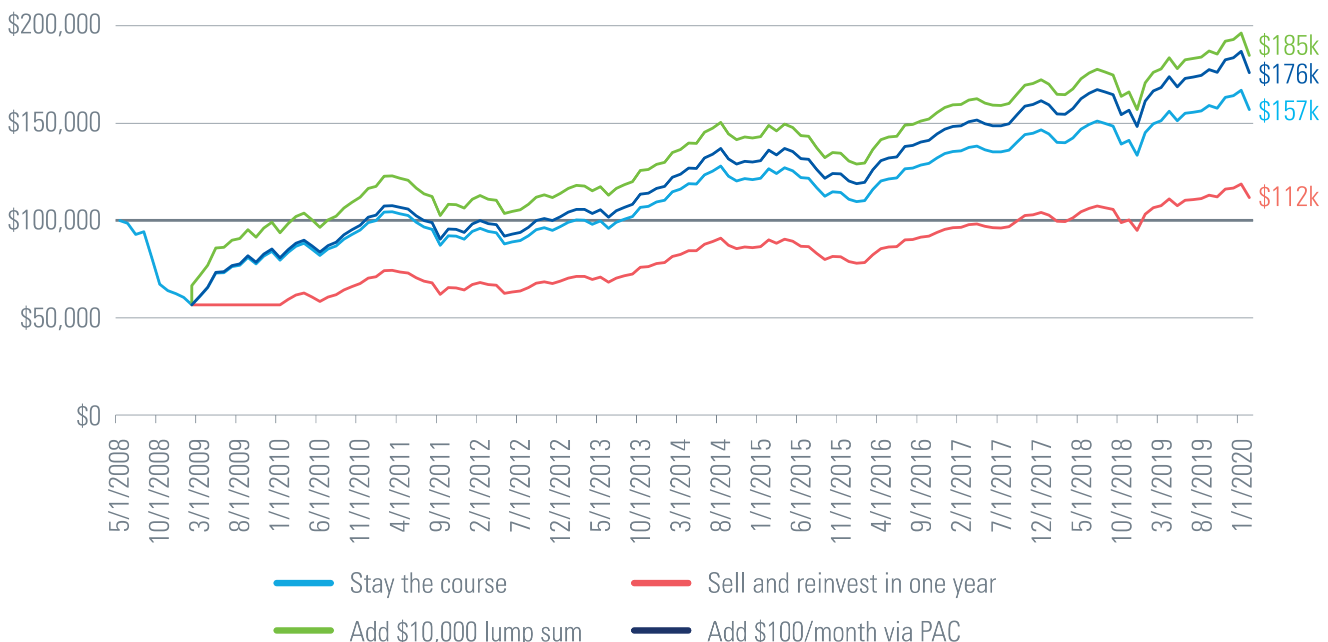
Option 3: Stay invested and add a lump sum

Adding $10,000 to the same equity position at the market bottom.

Option 4: Stay invested and add via a PAC*

Adding $100 dollars per month to the same equity position.

Growth of $100,000 post-financial crisis



*This is a hypothetical illustration and should not be relied upon for any other purpose. It is not possible to invest directly in market indices.

Investment option	Months to recover original investment
Add $10,000 lump sum**	18
Add $100/month via PAC*	23
Stay the course	25
Sell and reinvest one year later***	105

Source: Morningstar Direct. S&P/TSX Composite Index monthly data from May 1, 2008 to February 1, 2020. *PAC is a pre-authorized contribution plan. **Assumes an investment of $10,000 made on February 1, 2009. ***Assumes reinvestment on February 1, 2010.

When markets tumble, the first instinct many have is to run for the exits with the intention of reinvesting when things stabilize. But the data shows this may not be the best decision – assuming the goal is to recoup losses as quickly as possible. For investors who sold off their positions in 2008 and waited a year to get back in, it took over 105 months to recoup their original invested amount. The reason is simple: they missed out on some significant gains while they were on the sidelines.

The best approach to the 2008 financial crisis was to add to the portfolio when things seemed to be at their worst. And while not the optimal approach from a return perspective, staying the course was still a very solid choice as well.

Speak with your advisor to help decide which response to the current downturn is right for your unique circumstances and needs.

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