Advice From Advisors: Seek Out Opportunities When Markets Collapse

Description

It's a correction that market watchers say was long overdue. Still, a 400-point drop on the Toronto Stock Exchange is sure to attract attention and start investors thinking about their own risk tolerance and whether their financial plan is built to withstand such a decline, even if it is only short term.

"The key is to quell your emotions," says Tom Caldwell of Caldwell Securities. "If you don't know what to do, don't do anything. Relax for a day or so and see what happens." Corrections occur naturally in the market, and this one is definitely tardy: the last one was four years ago.

For his part, Caldwell says he's been "nibbling" at various stocks, including techs, U.S. financials, and Canadian banks. Not a bad idea, especially considering Canada's big banks release their latest earnings reports this week, and strong numbers could bump up their stock prices, even in a bear market environment. Among those banks, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is favoured by many for its international diversification, not to mention its 4.87% dividend yield.

Darius McDermott of Chelsea Financial Services in London recommends that investors do more than just nibble at stocks. He says some of his clients see Monday's downturn as a "decent buying opportunity."

Chartered Financial Analyst Jennifer Dowty believes market volatility will remain with us in the near term and will create buying opportunities for long-term investors. "Yields are low, valuations are becoming more compelling, lower oil prices are positive for consumers and the economy, and the U.S. Federal Reserve will be hard pressed to raise interest rates in September with the lack of inflation and global economic unsteadiness."

"I believe that this is just a correction within a secular bull market," she says. "Markets are forward looking and the underlying economic data is expected to recover and strengthen in North America in 2016."

Brent Vandermeer, a portfolio manager with HollisWealth, says investors who don't want any losses in their portfolio should have a long chat with their financial advisor.

“This is part of what equity markets have consistently done and will continue to do and we have to endure these downside storms even though we get very fearful and worried it is going to keep going down to zero.”

While Monday’s declines may look big, they’re still a drop in the bucket compared with the financial crisis when the S&P/TSX Composite Index dropped more than 7,000 points from its high in 2008 to the low point of the crisis in 2009.

So, the bottom line is don’t panic and look for opportunities. Financial author Gordon Pape says that faced with this kind of uncertainty, the temptation is to be out of stocks completely. “But we know from experience that market timing is a fool’s game,” he points out.

For those who are worried, Pape suggests increasing the cash and bond portion of your portfolio, and adding more defensive stocks to the equity mix, such as utility company **Fortis Inc.** (TSX:FTS), which offers a 3.9% dividend yield.

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