What’s the Best Strategy for Investors Now That the TSX Index Is at All-Time Record Highs?

Description

The TSX Index, Canada’s benchmark index for publicly traded securities, is set to close this week’s trading if not at an all-time high, then very, very close to one.

Given what happened not so long ago in 2007-08, this naturally has a lot of investors out there scratching their heads and asking themselves, “Okay, so now what?”

Here are a couple of battle-tested strategies that, more often than not, have proven to work in these types of situations.

Taking some risk off the table

This a fairly common approach followed by many investors out there, if only because of the demonstrably random nature evident in the financial markets.

The thinking here is that “what goes up must inevitably come down,” and that now, with markets setting new record highs, there’s at least a perception among some out there that now that markets have seen a fairly sizable run up, the chances of them “coming back down” is, on average, higher than what it might otherwise would be.

This approach of selling a portion of an investor’s portfolio following a steep run up in value is reasonable in that can help to mitigate the risk of plunging more capital into the markets at what ends up being the worst conceivable time.

It’s also not so different from the logic behind a dollar-cost averaging strategy, which we’ll discuss below.

Dollar-cost averaging your market bets

Normally, we talk about dollar-cost averaging your individual security selections, meaning that an investor would invest the same amount of money at regular periodic intervals. But it's a strategy that can be applied at the "macro" or market level as well.

The intended result with a dollar-cost averaging strategy is that the investor ends up buying a greater number of shares when an investment's price is depressed and conversely purchases fewer shares when the dollar value of a particular investment (in this case, the overall market) is trading at a comparatively higher figure.

The idea is that by following the aforementioned mathematical formula, the investor ends up reducing their risk of market timing (more specifically, the risk of getting their market timing wrong!) by spreading out stock market purchases evenly and across time.

Employing a sector-rotation strategy

This one is interesting, because it can be flexible depending on an investor's particular outlook towards the market.

If, for example, you were feeling as though the fact that markets were making fresh all-time highs was indicating a bullish signal, one possible sector-rotation strategy would be to allocate relatively more capital to economically sensitive sectors of the market — for example, stocks linked to inflation, such as basic materials and mining companies.

Or if you felt as though markets at all-time highs make you want to take on a more conservative risk profile, you could alternatively consider a strategy that would involve favouring more defensive companies, such as those operating within the consumer staples category or REITS and utilities, which have historically tended to pay out a higher percentage of annual dividends.

Foolish bottom line

There's literally no one (with any credibility at least) who will admit that they're a "market-timing expert" or that "they know where the markets are headed next."

Rather, investors ought to take the risk of "market timing" out of the equation altogether in favour of a strategy that would see them continue to make long-term capital investments in high-quality, sustainable business models carefully run by experienced management teams.

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