Wherever you are
Wherever you are going

Cycling around again

When the stock market is low and economic news is negative, it may seem like a permanent state of affairs. However, the market, like the economy, can be cyclical.

Market cycles can affect every asset class. Different asset classes, however, may respond differently to economic trends. That's why it's important to have a diversified portfolio. For example, when stock prices decline, bond values may increase. So, when the stock market is volatile and trending lower, bond investments may counter the losses by performing well.

Market reactions

The stock market reacts to economic and other conditions in varying degrees. A "correction" is a relatively short-term drop of 10 percent in the major market indexes. A "crash" is commonly defined as the sudden drop in stock values of 20 percent or more within a relatively short period of time. A crash is typically accompanied by widespread selling of stock investments. A "bubble" occurs when investors have driven up stock prices to what turns out to be unsustainable levels. When the bubble "bursts," stock prices generally will drop significantly to become more in line with what is perceived to be their true underlying values. This may provide investors with an opportunity to buy.

A moving performance

The performance of certain stocks is closely tied to economic conditions. These are known as cyclical stocks because their ups and downs typically coincide with an aspect of the economic cycle. When the economy is strong, cyclical stocks tend to do well. When the economy is in a downturn, they tend to suffer. Businesses that are cyclical include housing, car manufacturers and airlines.

Stocks that are less affected by economic conditions are known as "defensive" stocks. These include stocks in industries where the demand for products and services generally remains the same no matter what's going on with the economy. Two examples: pharmaceuticals and utilities.

When will it move?

It's virtually impossible to predict market or economic cycles. In fact, it might take several months before a market high or low or a stage in the economic cycle becomes apparent. Instead of trying to anticipate market movements, your best bet may be to stick with a well-thought-out, diversified[1] investment plan.

For further information on financial planning

We invite you to visit mybmoretirement.com or call the My BMO Retirement Line at **1-800-858-3829**.

[1]Diversification does not ensure a profit or protect against loss in a declining market.

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