Facts & Fiction

Fact-checking and perspective on common investment beliefs

CIO Office

As of September 30, 2025

Staying on the sidelines waiting for a market correction?

Fiction

The expectation of a stock market correction justifies staying on the sidelines.

Facts

If you're anticipating a stock market correction, you're probably right, as declines of at least 5% occur virtually every year; 10% six years out of ten; and around 15% four years out of ten.

Nevertheless, history shows that investors willing to stay invested through these fluctuations are well advised, as even the average return in years marked by a correction of 10% or more is positive.

Thus, **investors whose investment horizon allows for patience are probably better off accepting rather than fearing the inevitable periods of correction**, as these are, in some ways, the price to pay for achieving their return objectives in the long run.

Drawdowns and return by calendar year, S&P/TSX (1971-2024)

Years with a drawdown of…	# of Years	% of Years	Average Return	# of positive Years
… 5% or Worse	51/54	94%	10%	37/51
… 10% or Worse	31/54	57%	4%	17/31
… 15% or Worse	22/54	41%	1%	10/22
… 20% or Worse	14/54	26%	-2%	6/14
… 30% or Worse	7/54	13%	-8%	3/7
… 40% or Worse	1/54	2%	-33%	0/1

Drawdowns and return by calendar year, S&P 500 (1971-2024)

Years with a drawdown of…	# of Years	% of Years	Average Return	# of positive Years
… 5% or Worse	51/54	94%	12%	39/51
… 10% or Worse	31/54	57%	6%	19/31
… 15% or Worse	19/54	35%	0%	8/19
… 20% or Worse	9/54	17%	-9%	3/9
… 30% or Worse	5/54	9%	-12%	2/5
… 40% or Worse	1/54	2%	-37%	0/1

CIO Office (data via Refinitiv)

Market timing in the long run

Fiction

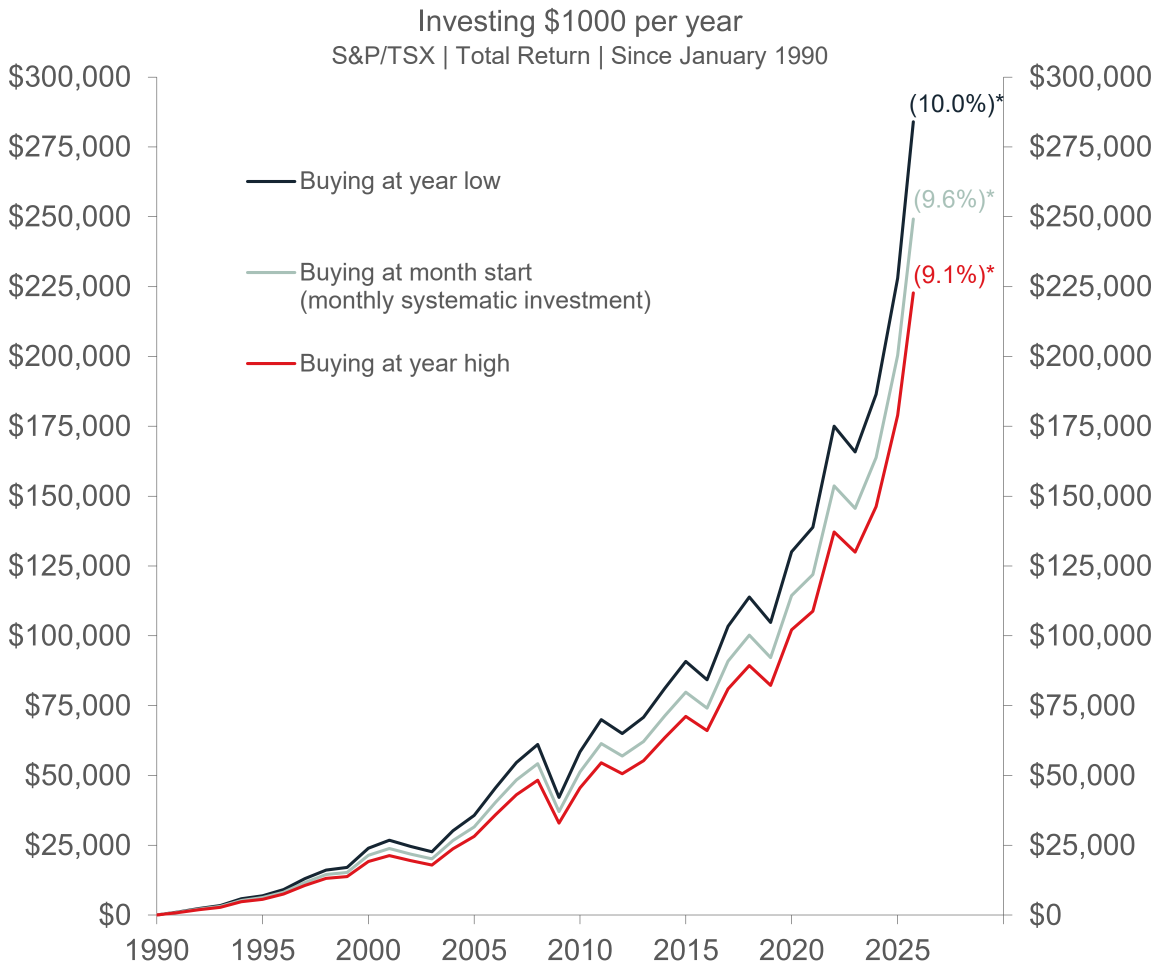
The timing of your annual savings investment is of utmost importance for the well-being of your portfolio in the long run.

Facts

The timing of your annual savings investment will make a difference in the long run, but it is far from being the critical factor many seem to believe.

Case in point: consider an investor blessed with the power of perfect market timing (blue line) compared to another investor cursed with systematically picking the worst possible day to invest each year, over 30 years (red line). In the end, the market timing champion would have outperformed the most unfortunate of all investors by a mild 1% / year. If we take the more realistic example of an investor saving systematically at the beginning of each month, this annual outperformance shrinks below 1%.

How is such a small gap possible? Simply because **in the long run, the first year's return is superfluous. What truly matters is the frequency of savings and passage of time, not market timing.**



CIO Office (data via Refinitiv). *Annualized money-weighted rate of return.

Reasons to sell?

Fiction

Selling in times of heightened uncertainty can protect investments from heavy losses.

Facts

Selling in times of heightened uncertainty is generally the best way to ensure heavy losses, as it often rhymes with selling low and missing the rebound.

More importantly, one should keep in mind that **the only certainty is that there will always be uncertainty, as it is the price to pay for capital appreciation in the long run.**

And – need we add – it isn't in the media's best interest to report the latest news with nuance and historical perspective; better to let fear and pessimism easily set in. However, the chart on the right should act as a reminder that letting emotions take over is a good recipe for short-term gain, but long-term pain.

CIO Office (data via Refinitiv)

Average return?

Fiction

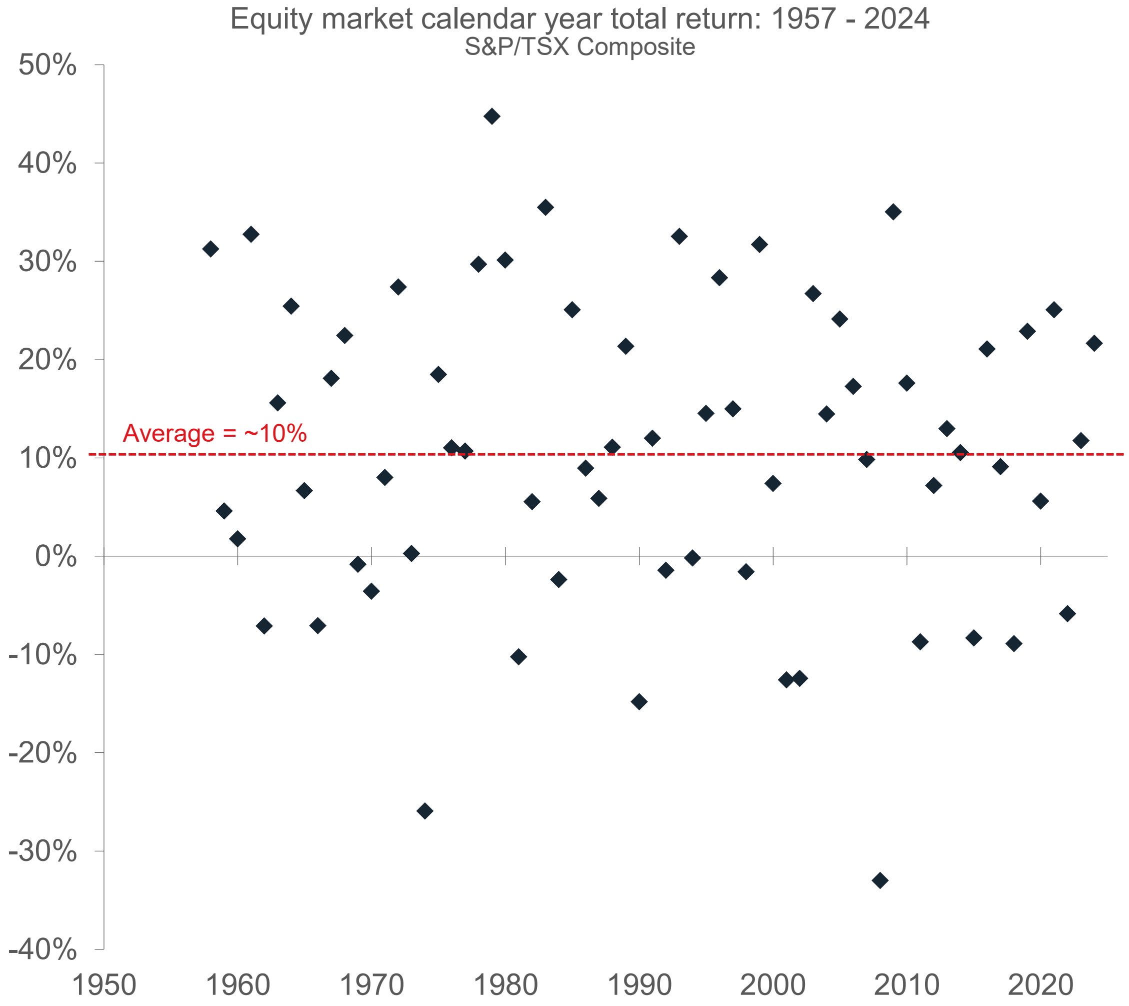
Since the long-term historical average annual return on the stock market is ~10%, investors should expect to see calendar-year returns near 10%.

Facts

Quite the contrary, **it is likely that investors will only rarely see a calendar year where equity returns are close to their long-term historical averages.** Case in point: since 1957, only 9 years out of 67 have seen the Canadian stock market generate performance near the average (+/- 2%).

One likely reason for this myth is the common misconception that "average" is synonymous with "typical." However, there is no such thing as a "typical" year in the stock market.

As a result, investors should expect a wide range of possible outcomes in any given year, whereas only the passage of time can lead to an annualized return near the market's long-term average.



CIO Office (data via Refinitiv)

Equity performance in the long run

Fiction

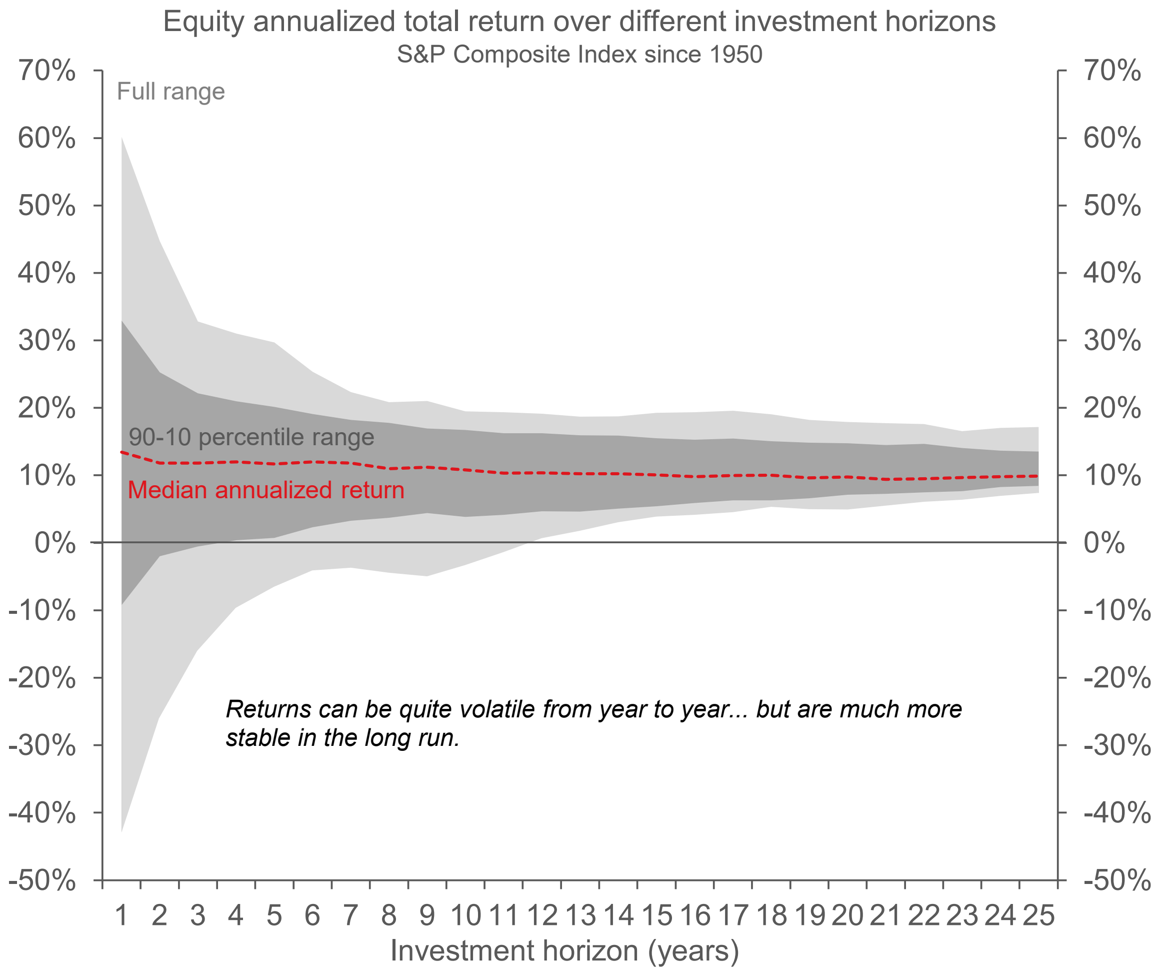
Investing in the stock market is akin to gambling at a casino.

Facts

It is true that daily market fluctuations resemble a coin toss. Nevertheless, two fundamental reasons make investing completely different from gambling.

First, unlike the world of gambling, investing in the stock market is not a zero-sum game, as evidenced by the positive median annualized return (red dotted line). In the long run, equity returns come from companies' ability to grow their earnings, not from other investors' misfortune.

Second, while gambling remains just as uncertain no matter how long you "play", the opposite occurs within equity markets, as evidenced by the narrowing range of outcomes over time (grey area). The longer one "plays" (i.e. remains invested), the greater the chances are of converging towards the premium investors earn for bearing equity risk.



CIO Office (data via Robert J. Shiller at http://www.econ.yale.edu/~shiller/data.htm).

Dollar cost averaging or lump sum?

Fiction

Investors contemplating investing a large amount (e.g. an inheritance) are better off spreading their entry over time (dollar cost averaging) rather than committing the full amount immediately (lump sum).

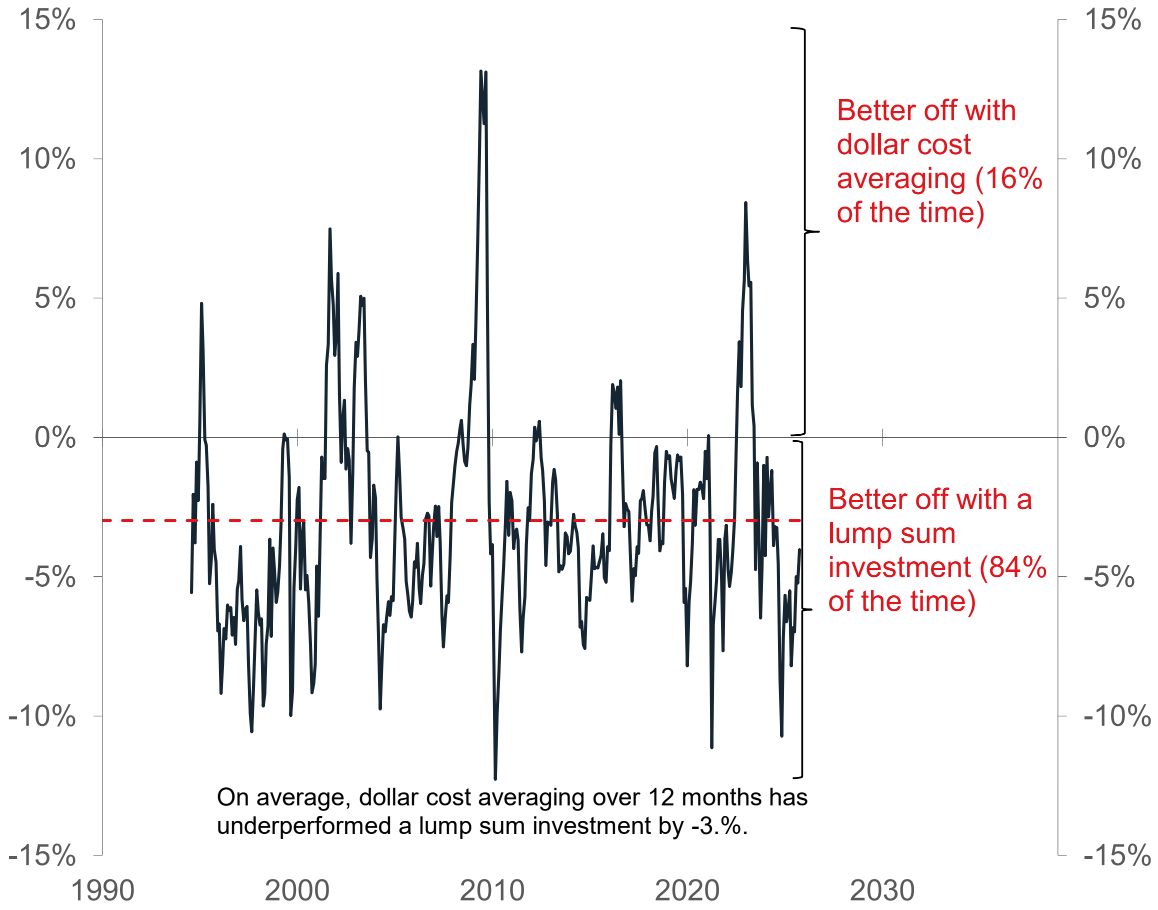
Facts

It depends. But since 1980, **you would have been better off investing the full amount right away 84% of the time**, while the decision to split the investment evenly over twelve months would have cost an average of 3% in lost returns. This simple study assumes a portfolio* evenly balanced between Canadian bonds and global equities.

Of course, no one wants to put money to work right before a market correction, this myth being a prime example of one of the most well documented behavioural biases in finance: loss aversion.

Yet, think of it this way. Would you invest in a strategy that loses 8 times out of 10 and by an average of 3%? After all, these are the historical properties of dollar cost averaging.

How often has dollar cost averaging beaten a lump sum investment?



CIO Office (data via Refinitiv). *50% ICE BofA Canada Broad Universe, 25% S&P/TSX, 25% MSCI World.

Should investors fear recessions?

Fiction

Investors should be fearful of recessions as they entail heavy financial losses.

Facts

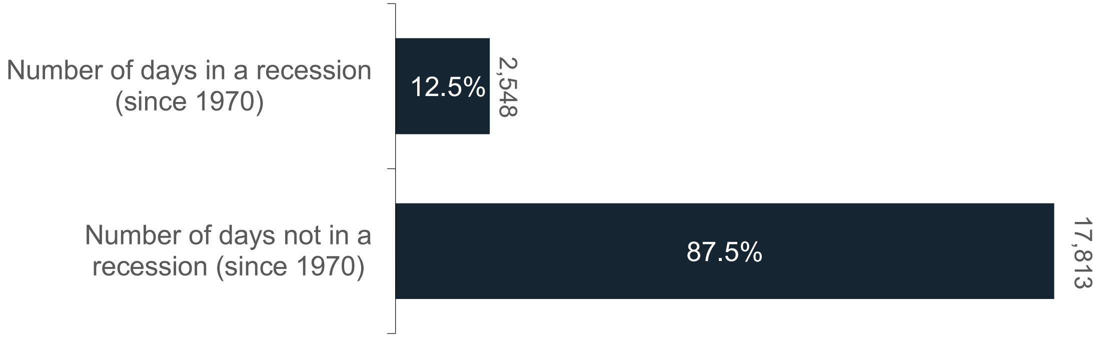
It is true that the most turbulent periods for markets are generally concomitant with recessions. As such, those with eyes riveted on daily stock exchange prices are very likely to experience fear in times of economic downturn.

However, if we step back from market fluctuations and look, rather, at the historical performance of a basic balanced portfolio* during the last seven recessions, we see that the average return was actually -1%. Not something to celebrate, but far from the financial catastrophe many seem to believe – especially when we consider returns in the previous and following years. What's more, let's not forget that recessions are relatively rare events, covering less than 13% of the last 55 years.

Therefore, **it is not the recession that investors should fear, but fear itself**… or rather the risk of materializing heavy losses, when in the grip of emotion, at an untimely moment.

Balanced portfolio (60/40)* total return

Recessions (NBER)	12-months Before	During Recession	12-months After	Full period**
Nov 1973 - Feb 1975	7%	-7%	12%	11%
Jan 1980 - Jun 1980	11%	9%	7%	31%
Jul 1981 - Oct 1982	9%	14%	26%	57%
Jul 1990 - Feb 1991	4%	6%	9%	21%
Mar 2001 - Oct 2001	-1%	-5%	-8%	-14%
Dec 2007 - May 2009	1%	-15%	8%	-8%
Feb 2020 - March 2020	9%	0%	16%	27%
Average	**6%**	**0%**	**10%**	**18%**



CIO Office (data via Refinitiv). *60% MSCI World (in CAD) 40% ICE BofA Broad Canada Universe (FTSE 91-day index for the 1973-1975 recession).
**Total return from 12-months before a recession until 12-months after a recession. Recession dates are from the NBER.

Are GICs a risk-free alternative?

Fiction

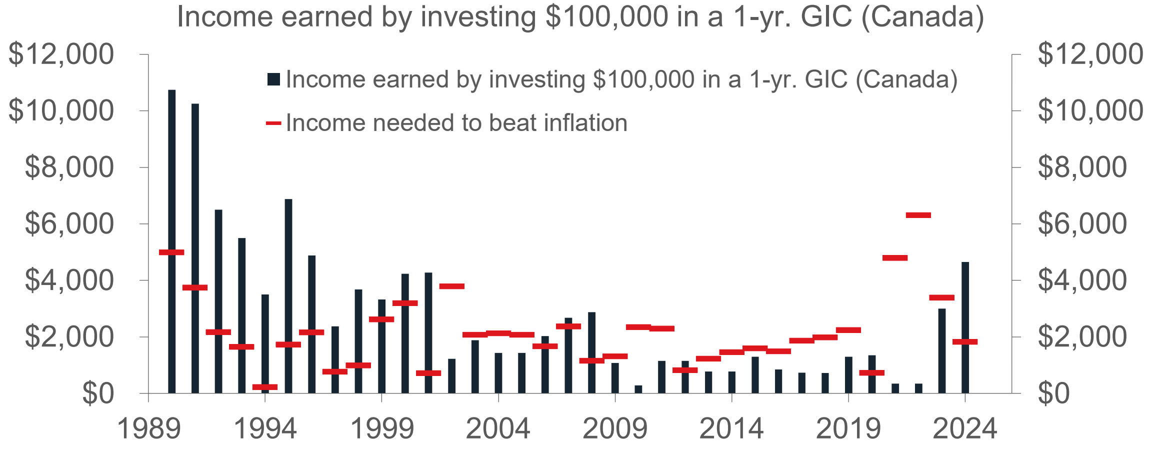
Guaranteed Investment Certificates (GICs) offer a risk-free alternative for investors seeking to at least preserve the purchasing power of their assets.

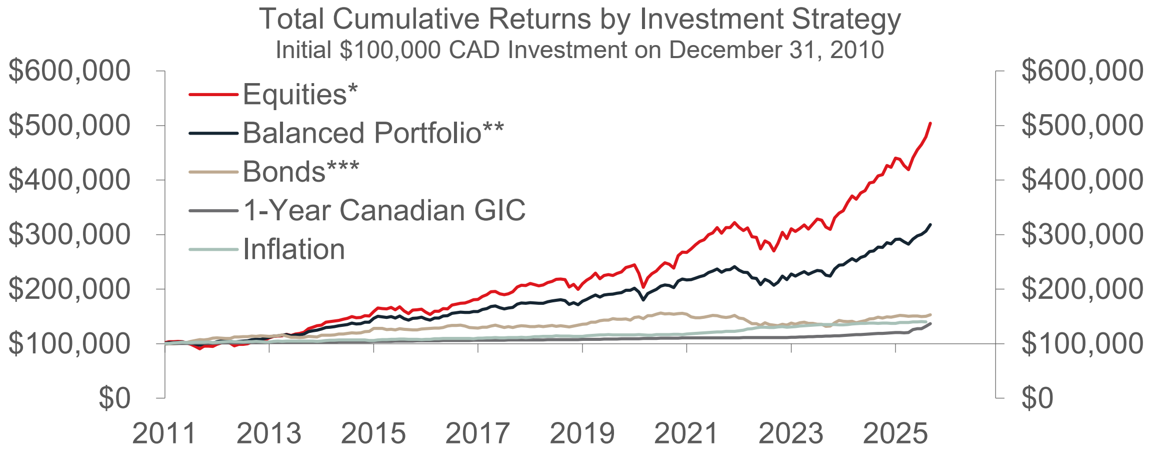
Facts

GICs are indeed among the safest investment vehicles available. However, their returns, while guaranteed, do not always cover inflation, leaving their holders at risk of seeing their purchasing power decline over time.

Ultimately, the selection of an investment vehicle depends on risk tolerance - GICs may therefore be the right choice for some. However, let's not forget the basic principle that investors willing to tolerate periodic market fluctuations are ultimately rewarded in the form of better returns over time.

As such, **a key risk for investors whose investment horizon is measured in years may not be the short-term volatility of other assets, but rather the potential erosion of their purchasing power over the long run.**





CIO Office (data via Refinitiv). *30% S&P 500, 40% S&P/TSX, 20% MSCI EAFE, 10% MSCI EM; all in CAD. **60% Equities, 40% Fixed Income ***100% ICE BofA Broad Canada Universe.

How strong is the “January effect”?

Fiction

Stocks generally perform better in January than in other months.

Facts

It is true that January has more often resulted in positive and high returns than what has been observed on average in the other months. However, this trend has largely faded in recent decades.

Since the past is no guarantee of the future and seasonal trends are not always persistent, an investor is well advised to ignore these historical observations and maintain a systematic investment plan. There is no need to wait until January to make this good resolution!

CIO Office (Data via Refinitiv, Bloomberg). S&P 500 monthly returns from January 1930 to September 2025.

Are rate hikes bad for stocks?

Fiction

Stocks generally perform poorly when central banks hike their policy rate.

Facts

Each rate hike cycle has its own set of circumstances that often bring additional volatility to markets. However, **what normally prompts central banks to raise their policy rate is an economy that is showing strength and is expected to continue to do so; a typically favorable environment for stocks.**

Case in point: since 1996, the yearly total return of the S&P/TSX averages 6.7% (9.7% for the S&P 500) when the Bank of Canada (Federal Reserve) hikes the overnight rate at least once, lower than the 9.4% (11.2% for the S&P 500) average of all years over that same time period but still well into positive territory.

To be clear, these historical trends are no guarantee for any specific year, as evidenced by the year 2022, whose unique circumstances led to substantial setbacks for stocks. Nevertheless, over the long run, odds remain in favor of patient investors, regardless of the ups and downs of policy rates.

Canada

Year	# of rate hikes*	Total return (S&P/TSX)
1997	5	15.0%
1998	3	-1.6%
2000	4	7.4%
2002	2	-12.4%
2005	3	24.1%
2006	4	17.3%
2010	3	17.6%
2017	2	9.1%
2018	3	-8.9%
2022	16	-5.8%
2024	3	11.8%
Average	(rate hikes)	6.7%
Average	(all years)	9.4%

United States

Year	# of rate hikes*	Total return (S&P 500)
1997	1	33.4%
1999	3	21.0%
2000	4	-9.1%
2004	5	10.9%
2005	8	4.9%
2006	4	15.8%
2015	1	1.4%
2016	1	12.0%
2017	3	21.8%
2018	4	-4.4%
2022	17	-18.1%
2024	4	26.3%
Average	(rate hikes)	9.7%
Average	(all years)	11.2%

CIO Office (data via Refinitiv). *1 hike = 25 bps net change in policy rate.

Stock performance and the political party in power

Fiction

The political party of the government in power has a significant impact on equity market returns.

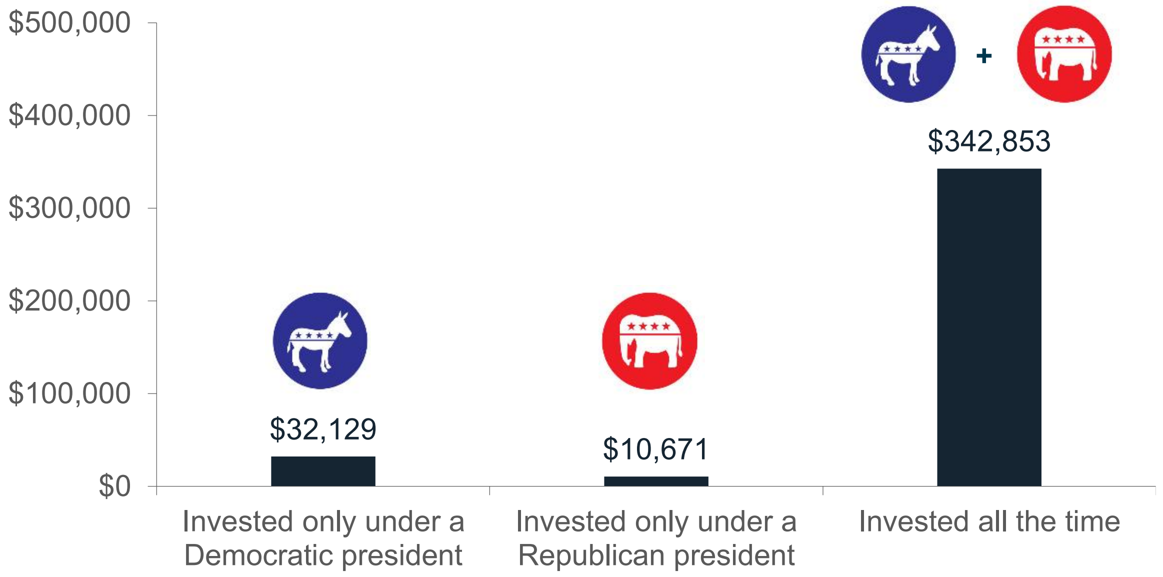
Facts

Over the very long term, history shows that stock markets have been successful in continuing their upward trend regardless of which political party is in power.

Over the past 50 years, an investor who had decided to stay on the sidelines when the President was not of his political stripe would find himself (badly) trailing an investor who decided to always stay invested.

In the end, **history shows that investors benefit from not letting politics and investments mix**, as difficult as that may be at times!

Present value of $1,000 invested in the S&P 500 since 1974
(Stays invested in the S&P 500 only when the president is of the preferred party)



CIO Office (data via Refinitiv)

Home country bias

Fiction

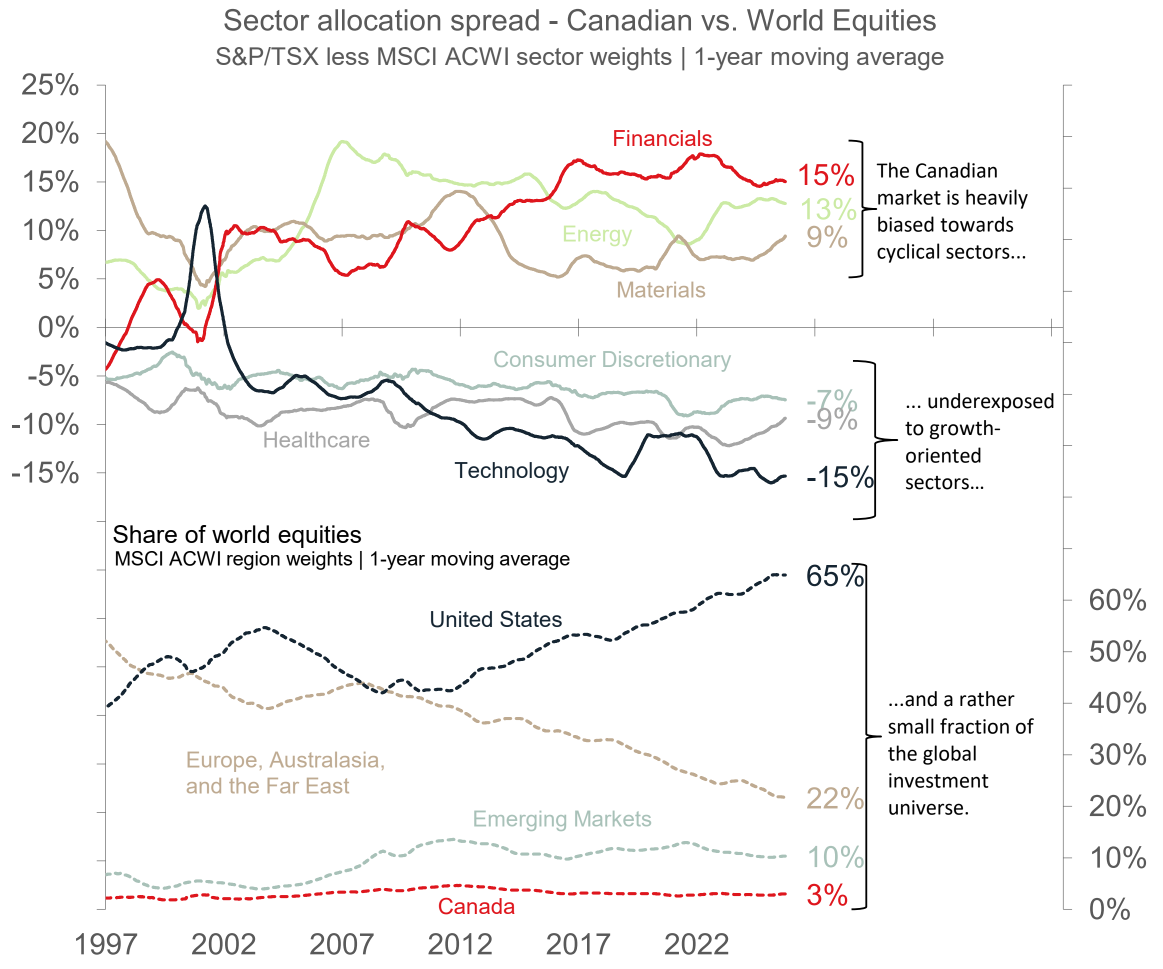
It is more prudent to invest most of your portfolio in companies domiciled at home and thus of greater familiarity than to “risk it” with foreign corporations.

Facts

While predominantly investing in domestic equities might seem sufficient and feel comforting, such a portfolio could, in fact, be just the opposite. Do not confuse familiarity with safety.

For instance, Canada’s stock market’s high concentration in some of the most cyclical sectors and its relative lack of growth-oriented companies poses a risk that can result in unpleasant surprises if left undiversified.

The good news is that there are plenty of opportunities abroad to complement for such risks. After all, **Canadian stocks only represent 3% of the global equity investment universe... a far cry from the ~45% they account for in Canadians’ portfolios***. Home bias indeed!



CIO Office (data via Refinitiv). *Estimate based on an average from FMI’s "Coordinated Portfolio Investment Survey" for 2014-2018.

Sell in May and go away

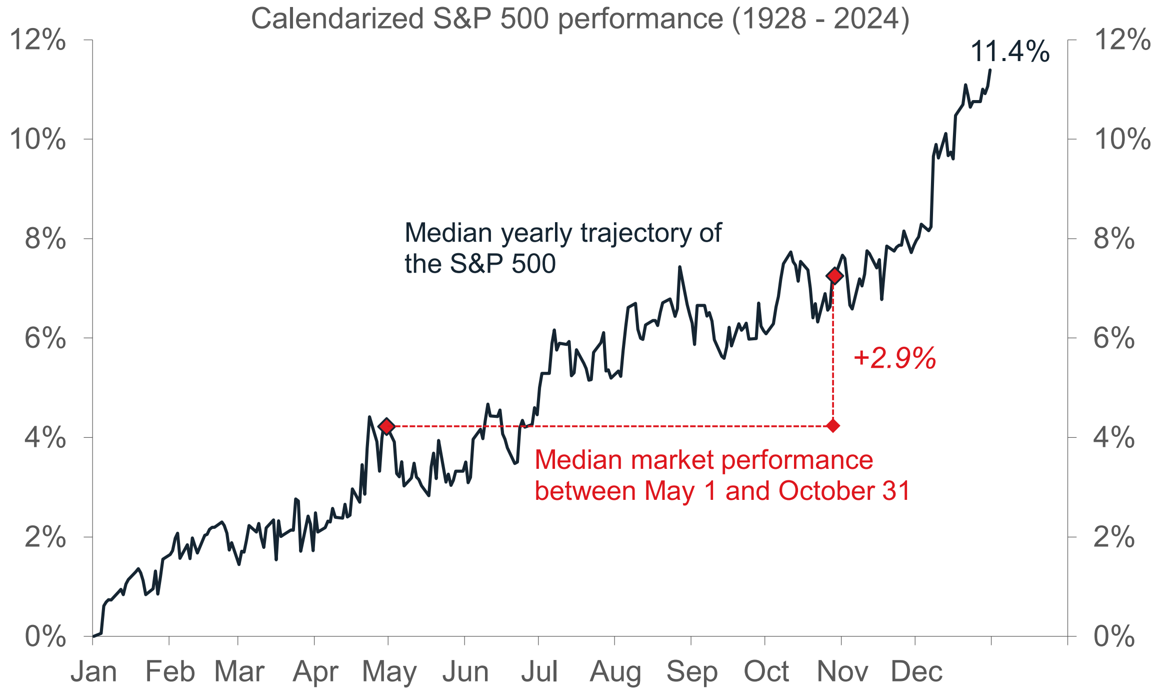
Fiction

“Sell in May and go away” is an adage that states that it is preferable to exit the stock market at the beginning of May and return at the end of October, referring to the supposed seasonal underperformance of this six-month period.

Facts

An analysis of the S&P 500's annual trajectory since 1928 shows that an investor who sold on May 1st and bought back on October 31st would have left gains of almost 3% on the table in a median year.

All in all, the “Sell in May and go away” strategy shows a positive performance only 35% of the time, an unattractive proposition when you consider that equity markets deliver positive annual returns more than two years out of three.



CIO Office (Data via Refinitiv & Bloomberg)

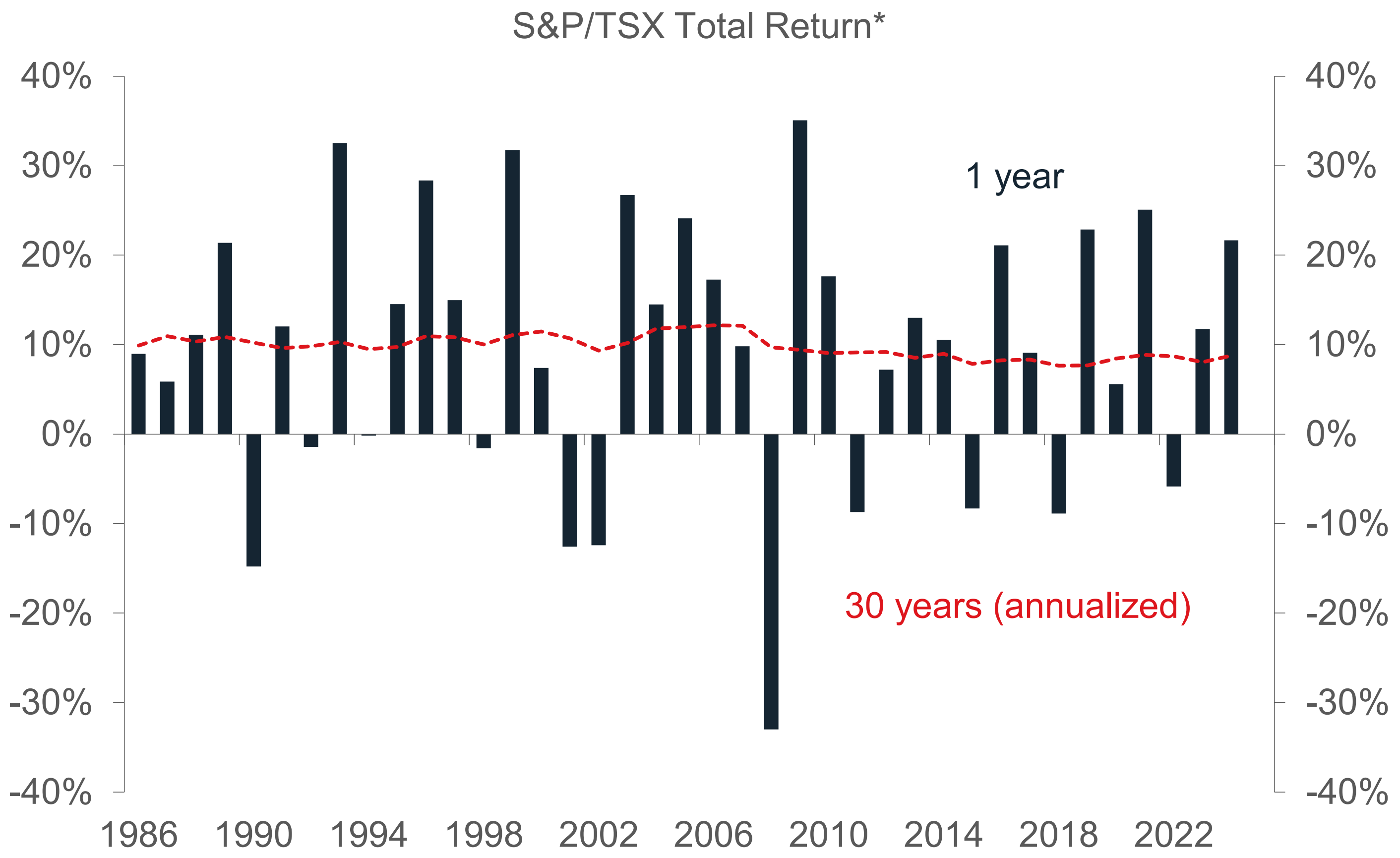
Additional Charts & Tables

Short-term fluctuations, long-term stability

Description

Illustrates how stock market returns can fluctuate from year to year (blue columns) but are very stable over the long term (red line).

Helpful **for investors highly concerned about the short-term market outlook**, although their investment horizon is long-term.



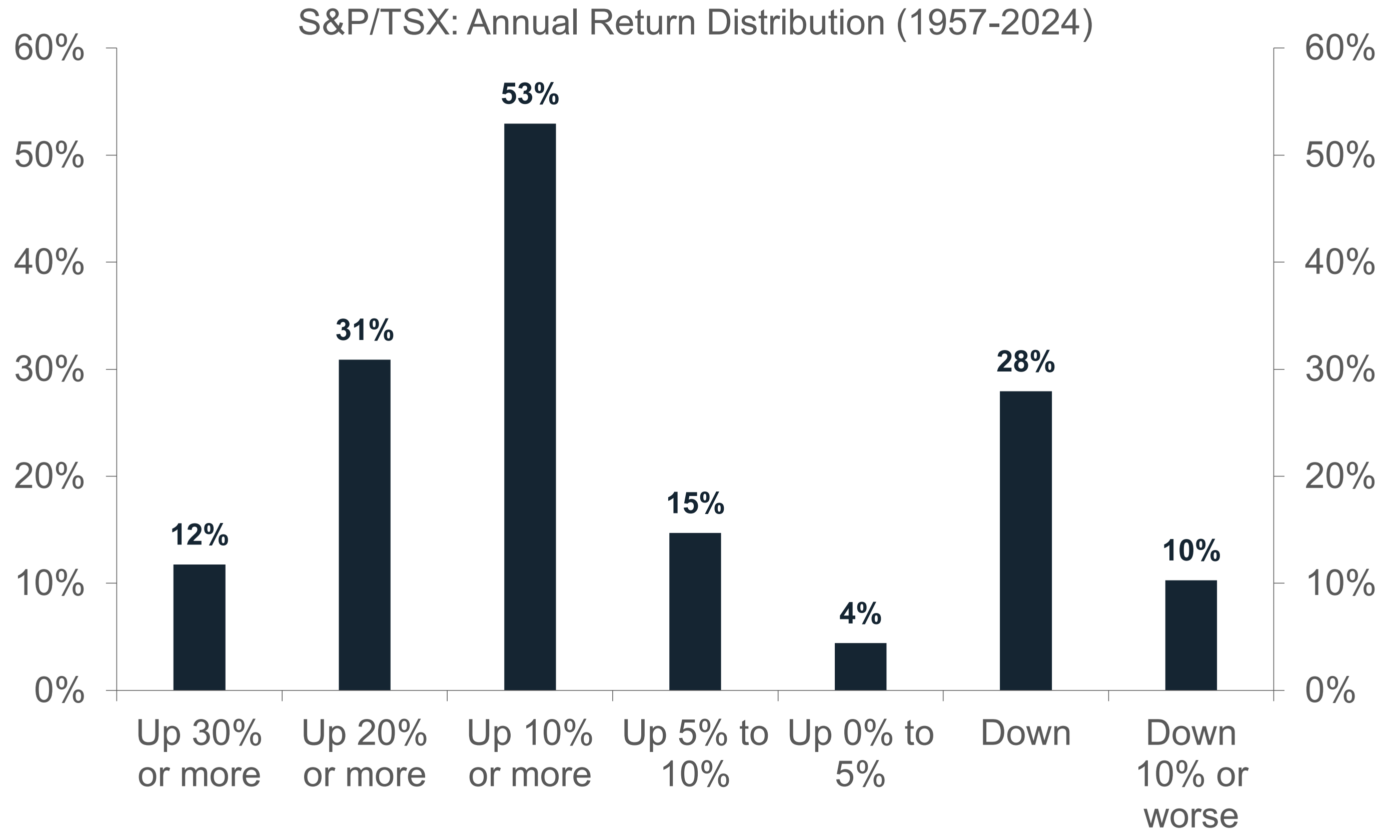
CIO Office (data via Refinitiv). Data from 1956 to 2024 (first complete 30-years period = 1986).

Annual stock market returns are rarely "average"

Description

Illustrates what one can "normally" expect in terms of equity returns in any given year. It shows that, although the average is between 5% and 10%, this result rarely occurs (15% of the time). In fact, it's even more common to see negative returns (28% of the time) or returns in excess of 20% (31% of the time).

Helpful **for investors questioning why annual returns often seem exaggerated or bad**, when in reality these fluctuations are "normal".



CIO Office (data via Refinitiv)

Even the best years for the stock market feature corrections

Description

Illustrates the inevitable – yet not catastrophic – nature of stock market corrections, as even the top ten years of the Canadian market have seen an average correction of 10% (since 1957).

Helpful **for investors who see a potential (or ongoing) correction as a motive to exit markets altogether.**

S&P/TSX Top 10 years of return (1957-2024)

Year	Total return	Max drawdown
1979	44.8%	-15.7%
1983	35.5%	-9.2%
2009	35.1%	-20.1%
1961	32.7%	-1.6%
1993	32.5%	-5.0%
1999	31.7%	-10.0%
1958	31.2%	-1.1%
1980	30.1%	-22.4%
1978	29.7%	-9.2%
1996	28.3%	-7.0%
Average	**33.2%**	**-10.1%**

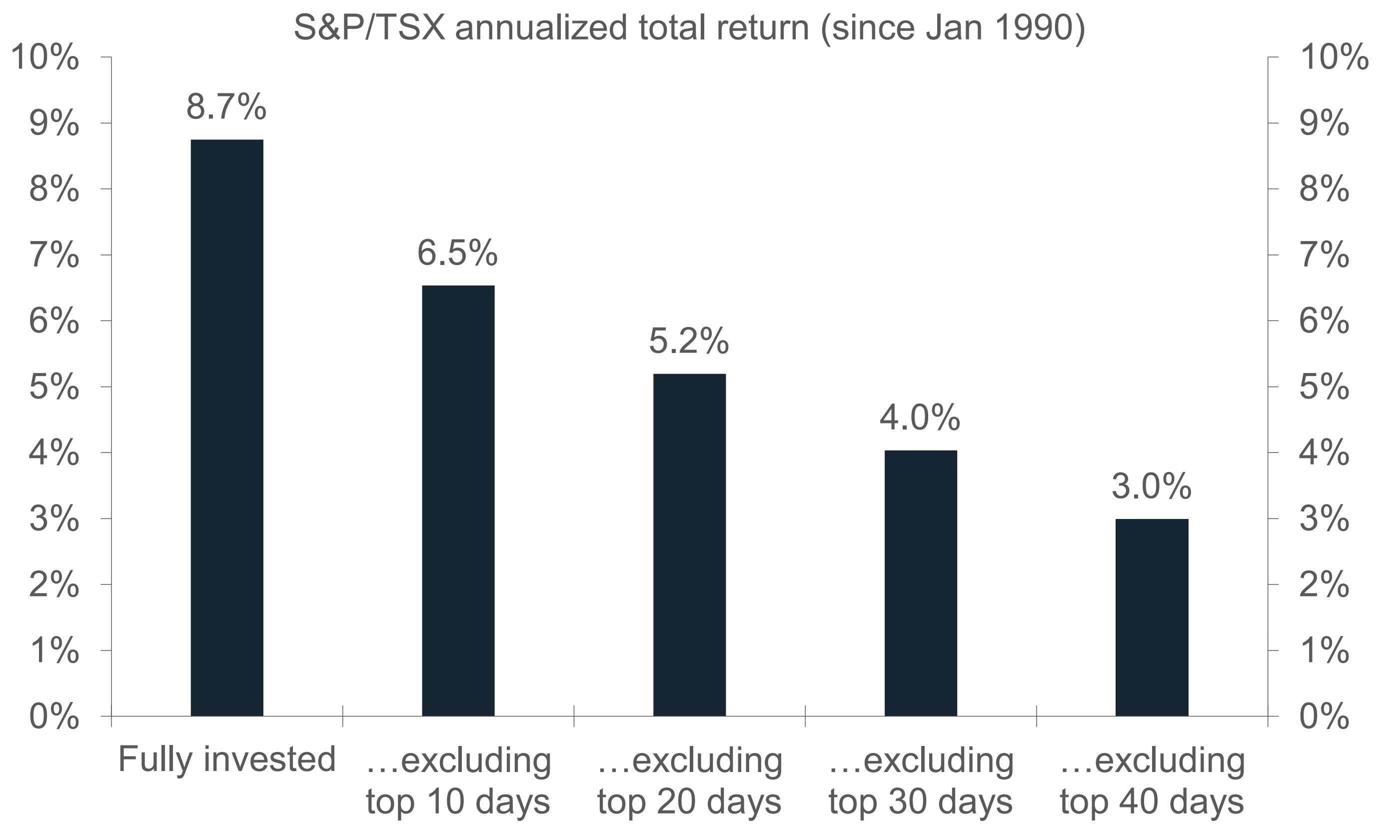
CIO Office (data via Refinitiv)

The risk with market timing

Description

Illustrates how long-term returns can be significantly and permanently influenced by missing just a few of the best days on the stock market (which, by the way, usually occur in turbulent times).

Helpful **for investors tempted by market timing**. All too often, this comes at the expense of the best ally of long-term investors: compound returns.



CIO Office (data via Refinitiv)

Returns over time: a matter of perspective

Description

Illustrates the random nature of shorter-term stock market fluctuations (almost as often negative as positive on a daily basis), which gradually give way to predominantly positive returns as the time horizon increases.

Helpful **for demonstrating the importance (and power) of patience to investors concerned about short-term fluctuations.**

S&P 500 returns*

Period	Positive	Negative
Daily	54%	46%
Monthly	65%	35%
Quarterly	73%	27%
1 year	83%	17%
3 years	86%	14%
5 years	85%	15%
10 years	93%	7%
20 years	100%	0%

*Price index from 1966 to 1987. Total return from Jan. 1st, 1988.

S&P/TSX returns*

Period	Positive	Negative
Daily	55%	45%
Monthly	62%	38%
Quarterly	68%	32%
1 year	74%	26%
3 years	89%	11%
5 years	97%	3%
10 years	100%	0%
20 years	100%	0%

*Price index from 1966 to 1985. Total return from Jan. 1st, 1986.

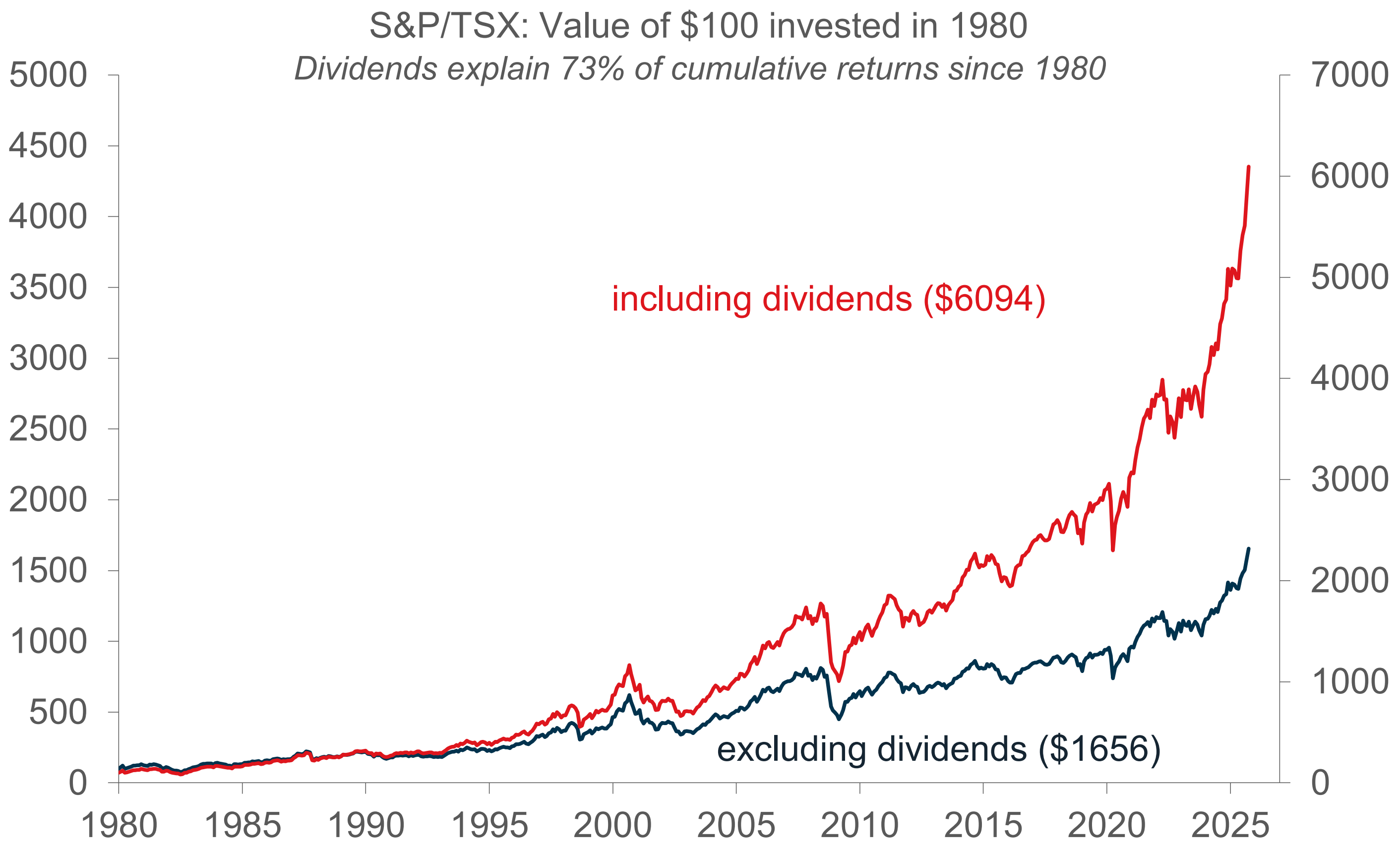
CIO Office (data via Refinitiv). *Price index from 1966 to 1985. Total return from January 1st, 1986.

The power of dividends in the long run

Description

Illustrates the importance that dividends can have on long-term cumulative returns, accounting for nearly 70% of total gains on the Canadian stock market since 1980.

Helpful **for investors under the impression that their returns rest entirely on share price fluctuations**, when in reality, compounded dividends often explain more than the majority of cumulative gains in the long run.



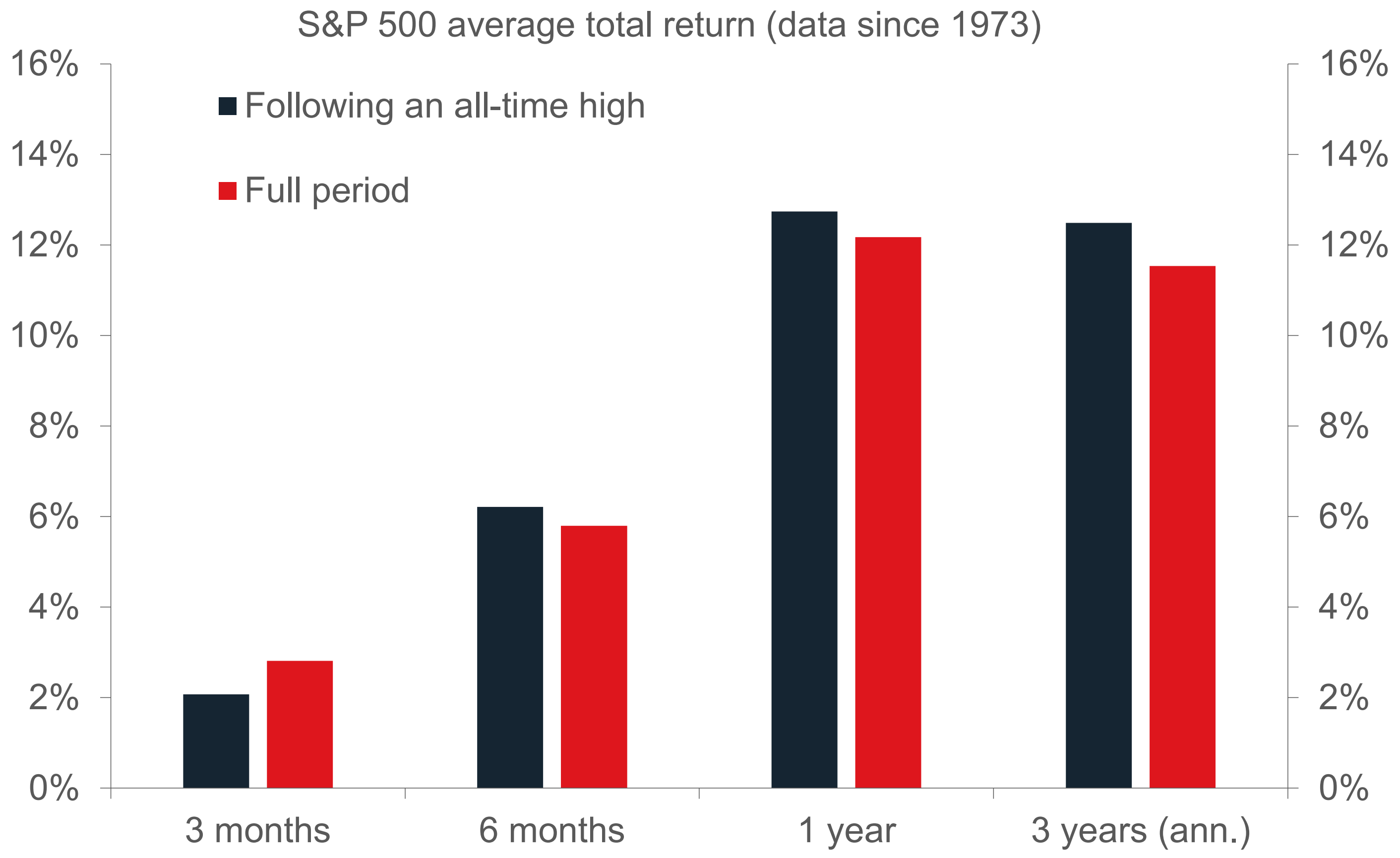
CIO Office (data via Refinitiv)

Equity returns following a new all-time high

Description

Illustrates how S&P 500 returns following a new all-time high do not significantly differ from returns observed in general*.

Helpful **for investors that are reluctant to put new money to work when markets are at an all-time high**. In fact, because equities generally go up in the long-run, all-time highs are not uncommon at all and investors would be missing out by avoiding them.



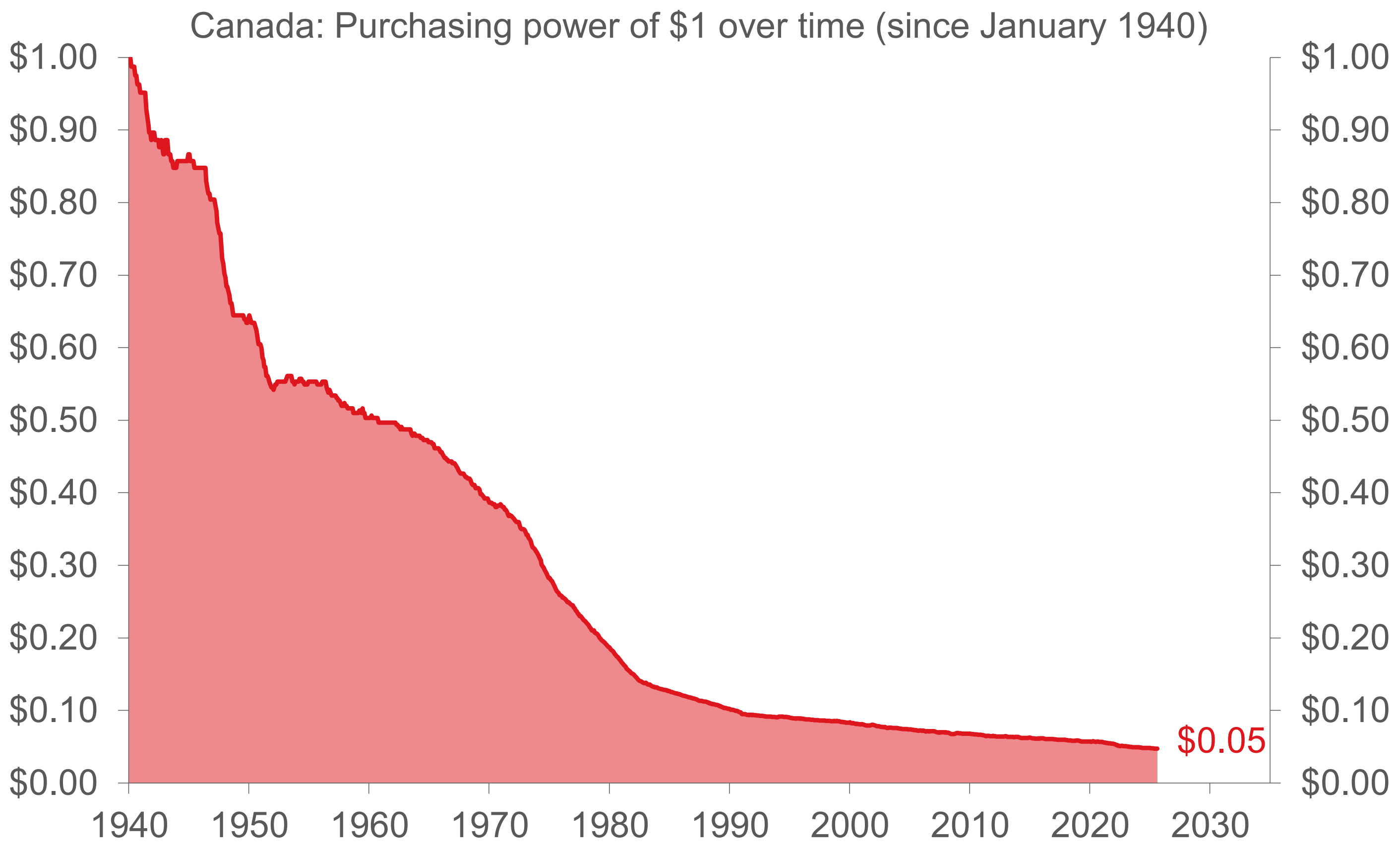
CIO Office (data via Refinitiv). *This does not necessarily hold in all equity markets, but it does hold for the S&P 500.

Loss of purchasing power over time

Description

Illustrates the loss of purchasing power due to inflation over time. In the long term, an uninvested dollar buys fewer and fewer goods and services as the cost of living increases.

Useful **for demonstrating the importance of investing to maintain the purchasing power of one's assets.**



CIO Office (data via Refinitiv)

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