Be wary of doom-and-gloom market headlines

In this day and age, it's relatively easy to find what you're looking for by doing a quick search on Google, whether it's to buy something, find a date or get the latest update on Kim Kardashian and Justin Bieber.

As an investor, when you're looking for information on markets or stocks, you likely already have your preferred news sources saved in your favourites tab. Your information might come from major media outlets, financial bloggers or maybe your neighbour. It's important to remember that not all sources are equally reliable – not that I'm trying to discredit your neighbour. Every now and then, some news headline on markets

Making Cents

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will surface; someone who is apparently "in the know" will claim that a stock market crash is coming.

These outrageous headlines will unfortunately grab your attention the most. Everyone can have an opinion on the state of the markets or the global economy, however not all opinions are accurate and credible. The new reality of today is that there is no shortage of information, but an overload. We come across many doomsday authors and bloggers who make a living out of scaring investors into believing that markets and the economy will collapse. The reality is that, like any sales person, they want to sell you a product. In most cases, it's either the latest version of their book, newsletter, gold coins or all of the above. They present you with ill-conceived facts to sell you on fear so they can profit from it. Apparently gold coins are what will save you in a doomsday scenario ... not food, water, shelter or electricity.

Let's consider the facts for a moment on markets and use the S&P 500 index as an example. A 10 per cent correction is normal and has happened about twice a year, on average, since the 1920s (this is the era they started tracking the index). A more substantial correction of 20 per cent has happened more frequently than you think, every two years on average. The really scary market corrections of 50 per cent or more have happened so infrequently that before the recent financial crisis, the last one occurred in the late 1930s (from 1937 to 1938). But despite the fact that numerous market corrections have materialized over the years, the S&P 500 has continued to climb to new highs. As of last week, the S&P 500 had again reached new highs.

What's important to realize is that market volatility is normal while severe market crashes, like the financial crisis, are not. Keeping your money on the sidelines in a savings account or even GICs because you fear markets will collapse is not really the best investment solution. Inflation is almost two per cent in Canada and when you account for the taxes you pay on the interest, you are losing money annually. This is not a great long-term investment strategy.

With all three market indices in the U.S. hitting all-time highs, this is actually a bullish (good) sign. After experiencing a year of consolidation in the stock market, on the backdrop of a great second quarter for corporate earnings, in my opinion it is time to get invested and overweighed in equities if you are still on the sidelines. The green light is on!

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