Investing lessons we learned in 2023

It's been said that adversity is one of life's greatest teachers. If that's the case, then investors sure learned a lot in what was an eventful 2023.

In the past 12 months, interest rates in Canada surged to 5%, their highest level in two decades; inflation, while down from its 2022 peak, remained stubbornly high; stocks saw big swings; and bond yields climbed dramatically. We also saw some U.S. banks go bust, and worried about a recession that's been rumoured for some time but has yet to officially materialize.

While you can never predict what's going to happen from one year to the next, history can offer some good guideposts and better prepare you for whatever is to come. Here are four lessons to consider as you head into the new year.

Bring back bonds.

Fixed income has long been a staple of a balanced portfolio. These securities are loans from you to a government or company that you will eventually get back with interest, giving you a little extra income over the course of your lifetime. Historically, fixed income tends to rise when stocks fall, and vice versa, but between 2008 and 2022, yields were so low that some were left to wonder if bonds were still worth buying. Well, 2023 answered that question, high interest rates have reinvigorated the bond market, which overall is enjoying positive returns. While the continued rate increases may be at an end, the outlook for bonds is still positive, given it's unlikely that rates will fall back to the ultra-low levels we've seen for most of the last decade.

Lesson learned: Bonds will typically have a role to play in a diversified portfolio.

Don't forget about diversification.

It may be the most important investing lesson in history: diversify your assets. If you hold investments in only one sector and it runs into problems, then your portfolio is going to fall a lot more than if you also owned investments in other sectors. We were reminded of this lesson once again in 2023. While markets did end up in positive territory, it wasn't a smooth ride (it rarely is), with stock markets often rising and falling based on economic news and interest rate decisions by central banks. For instance, sectors such as tech and consumer staples headed in opposite directions in the U.S during the year. That wouldn't have mattered as much to those holding some of both!

Lesson learned: Concentration has its risks; owning a little bit of everything could help reduce your risk if one asset class falls.

Simplify your investing.

If you've been paying attention to the markets in 2023, you'll know how hard it is to know when it's a good time to invest. Markets may be down one minute and up the next. Those "blink and you'll miss it" moments are not only frustrating, but they can also cost you money. That's why mutual funds and exchange-traded funds (ETFs) exist. These vehicles package up a bunch of stocks and/or bonds into one security that you can easily purchase.

These days you can simplify even further with all-in-one ETFs. These products hold stocks *and* bonds in the same portfolio. With Fidelity's All-in-One ETF suite, you can also get a little bit of bitcoin, while tapping into what are called "equity factors" – different styles of investing that help diversity a portfolio even further.

Lesson learned: Instead of trying do it all yourself, consider buying an all-in-one offering that covers all your bases.

Stay invested.

It's likely you felt at least a few moments of panic in 2023 when looking at your portfolio or watching business news. You may have even been tempted to liquidate your assets, worried that an even bigger drop may come. Hopefully, you didn't sell when times got tough, because markets did end up doing decently despite all the economic challenges. For instance, while the S&P 500 Index dropped by 7.53% between February 2, 2023 and March 13, 2023, it has since climbed out of that hole – and then some. In Canada, the ride wasn't any smoother, with equities climbing and falling multiple times before ultimately closing out the year on a high note.

Lesson learned: Timing & direction of market is hard to predict. As the gains for 2023 have proven, your potential best bet may be to stay invested – and keep investing – or you could miss out.

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