

Benefits of Staying Invested Through Market Volatility

- ▶ While the previous article reviewed a measure of market volatility, this article discusses the benefits of remaining invested during such periods.
- ▶ The S&P 500 has advanced a further 16% this year, adding to the returns through December 31, 2012, which are shown in the accompanying line graph.

The recent market volatility has investors questioning, "Are stocks still a good investment?" It's a good question, and one way to address this issue is to look at the recent 2007–2009 market crash. Investors who bailed out of the stock market following the significant decline and moved their money to the safety of cash would be quite disappointed to learn that the stock market, in fact, recovered significantly.

The top image illustrates the value of a \$100,000 investment in the stock market at the end of October 2007 (when the downturn began). Over the next several quarters, this \$100,000 investment declined significantly, and by February 2009 (the trough date) was down to \$49,051, a 51% decline. If an investor panicked and exited the stock market to invest the remainder (\$49,051) in Treasury bills (proxy for cash), here's what would have happened. The bottom graph illustrates the growth of the \$49,051 investment in both the stock market and Treasury bills since March 2009. The difference in the ending wealth values of the two investments is considerable. If an investor remained invested in the stock market, the ending value of the investment would be \$103,333. If the same investor exited the market at the bottom to invest in Treasury bills, the ending value of the investment would be only \$49,201. While exiting the market during a downward spiral may mean avoiding down days, it also means missing days when the market bounces back. While all recoveries may not yield the same results, investors may be well advised to stick with a long-term approach to investing.

The beginning investment time period of October 2007 was chosen to illustrate two concepts: (1) investing right before a significant market downturn and (2) the contrast between exiting the stock market and staying invested during a recovery. The exact timeline of the downturn-recovery is as follows: October 2007 (peak before the downturn), February 2009 (trough), March 2012 (recovery).

Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed. Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks

are not guaranteed and have been more volatile than bonds or cash. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss.

Ending Wealth Values After a Market Decline and Recovery

