# Feeling smart: How to survive in a volatile market

Retirement plan investors can be their own worst enemies when they make buying and selling choices in a volatile market. But money is an emotional topic, and all too often, when the market goes up or down, our emotions can get the better of us.

Knowing that people tend to make investment decisions based on how they feel rather than what they know is the first step toward taking control and making smarter choices in a volatile market environment. Remember these three key facts:

## 1. Market downturns are normal.

With very few exceptions, every year since 1995 the market has pulled back by 5% or more at least once, with 2% to 3% pullbacks being even more common. Usually, the market fully recovers from these declines within weeks.

FREQUENCY OF STOCK MARKET DOWNTURNS

| Downturn | Historical frequency | Typical number per year | Typical recovery time |
|---|---|---|---|
| 20% | Once per market cycle | 0 | 20 months |
| 10% | Once per year | 1 | 8 months |
| 5% | Once per quarter | 4 | 2 to 3 months |
| 3% | Once per month | 11 | 2 to 6 weeks |
| 2% | Often | 18 | 1 to 4 weeks |

Source: Barclay's Capital, FactSet, Robert Shiller, Strategas/Ibbotson, Federal Reserve, J.P. Morgan Asset Management.

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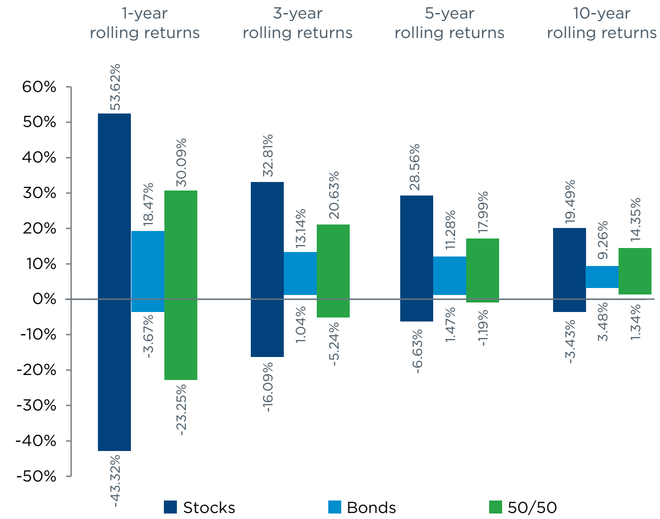
## 2. For long-term investors, markets tend to trend upward.

When markets fall, they tend to drop further and more quickly than they do when they rise. Historically speaking, markets are up more often than they are down, and that tends to lead to more positive long-term results overall. This is exactly the reason it may be important for long-term investors, like those in retirement plans, to stay the course. To see this, compare the range of historical outcomes for a 1-year investment compared to longer-term investments. While shorter-term investments have more potential for upside, they also have more potential for loss. Over longer time frames, that range tends to be more narrow and more positive.

RANGE OF RETURNS

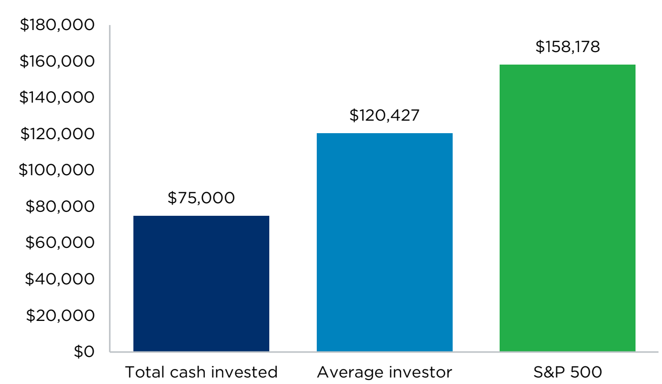



Source: Standard & Poor's, Morningstar, Bloomberg. Data as of 12/31/19.

## 3. Trying to time the market can be costly.

Over the last 10 years, the typical mutual fund investor's average annual performance was 5.72%, while the market, as represented by the S&P 500, returned an average 8.87% annually. The difference can be attributed to investor choices of asset class and buy/sell timing. Multiplied over decades, that difference translates into significant dollars.

$5,000 PER YEAR INVESTED 2004-2019



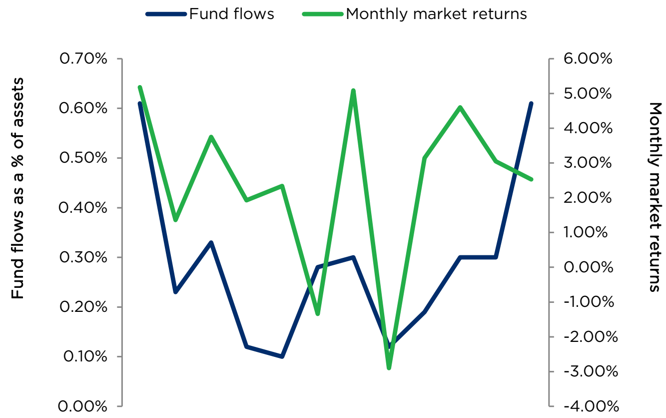

Source: Standard & Poor's, Morningstar, Bloomberg, Vanguard. Data as of 12/31/19.

## Learn from the past.

One of the challenges during a volatile time in the market can be managing overconfidence. Consider these historic facts:

| What investors say | | What the facts show |
|---|---|---|
| **93%** of people believe the market returned less than **30%** in 2013, and **9%** think it lost money that year. | ▶ | The market had one of its best years in decades, returning **32.39%** in 2013. |
| **76%** of investors claim they would likely take no action in a volatile market. | ▶ | Most investors tend to **buy high and sell low** (see chart "Fund Flows and Market Performance for 2013" below). |
| Roughly **90%** of people believe they are better than the average investor. | ▶ | From 1984 through 2013, the average mutual fund investor underperformed the market by **two-thirds**. |

FUND FLOWS AND MARKET PERFORMANCE FOR 2013




Sources: Wells Fargo/Gallup Investor and Retirement Optimism Index, The Motley Fool, DALBAR, Investment Company Institute, Standard & Poor's, Barclays, CBS New MoneyWatch.

## It's natural.

Behavioral finance experts have studied market psychology for decades, and some suggest that people are hard-wired to make irrational investment decisions. A few of the typical mistakes include:

- **Loss aversion**, sometimes called "panic selling," is when the fear of losing more money causes an investor to withdraw from the market at the worst possible time.
- **Narrow framing** happens when people make decisions about a piece of their investment portfolio rather than considering the overall strategy.
- **Herding** investors mimic what everyone else does and often find themselves buying high and selling low.

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Although it is natural to want to make an emotional decision during stressful market times, it's important to try to avoid the mistakes others have made. Remember your strategy and your time frame and make your choices accordingly.

### Taking steps

One of the best ways to manage through a volatile stock market is to set a strategy based on your personal goals and time horizon, choose diversified investments, and stick to the plan whether the market goes up or down. For retirement investors who are uncomfortable choosing their own asset mix, most plans offer solutions. Target date funds, model portfolios, and online advice services all offer help with setting a strategy, choosing investments and rebalancing back to the plan over time. **Contact your retirement plan service provider to find out more.**

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