selling to-avoid-declining-market

Considering market timing to avoid a declining market? Think again.

Market timing, or selling to “avoid” losses during a downturn, may seem sensible, but it’s a flawed strategy for long-term investors. Downturns have always been temporary and fleeing the market to reduce losses could mean missing out on gains when stocks recover.

The market has shown resilience

Declines are common throughout market history. Since 1900, the Dow Jones Industrial Average has experienced a 15% decline roughly once every two years. The average length of those declines is 216 days. But each of those downturns has been followed by a recovery, and those recoveries have often been sharp.

Recoveries have been strong

Returns in the first year after each market decline ranged from 36.16% to 137.6% and averaged 70.95%. Over a longer term, the average value of an investment more than doubled over the five years after each market low.

Recoveries have been strong

Five Biggest Market Declines and Subsequent Five-Year Periods[1]

1929–2017

		S&P 500 12-Month Returns[2] (Positive Periods (23); Negative Periods (2))						
Periods of Decline	Decline[3]	1st Year After Low	2nd Year	3rd Year	4th Year	5th Year	Average Annual Total Return for the 5-Year Period	Value of a Hypothetical $10,000 Investment at the End of the 5-Year Period
9/7/29–6/1/32	–86.22%	137.60%	0.52%	6.42%	56.68%	16.52%	35.93%	$46,401
3/6/37–4/28/42	–60.01	64.26	8.96	31.08	32.19	-19.89	19.96	24,841
1/11/73–10/3/74	–48.20	44.43	25.99	-2.86	11.79	12.82	17.39	22,293
3/24/00–10/9/02	–49.15	36.16	9.91	8.51	15.16	18.06	17.15	22,067
10/9/07–3/9/09	–56.78	72.29	18.08	6.10	15.74	23.65	25.30	30,890
Average		70.95	12.69	9.85	26.30	10.23	23.15	29,298

[1]Market downturns are based on the five largest declines in the S&P 500’s value (excluding dividends and/or distributions) with 50% recovery after each decline.

[2]The return for each of the five years after a low is a 12-month return based on the date of the low. For example, for the fifth period of decline, the first year after the low is the 12-month period from 3/9/09 to 3/9/10.

[3]The percentage decline is based on the index value of the unmanaged S&P 500, excluding dividends and/or distributions.

Each market decline reflects a period of more than 80 days with 100% recovery after each decline (except for a 77% recovery between 3/9/09 and 4/29/11). The average annual total returns and hypothetical investment results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or taxes.

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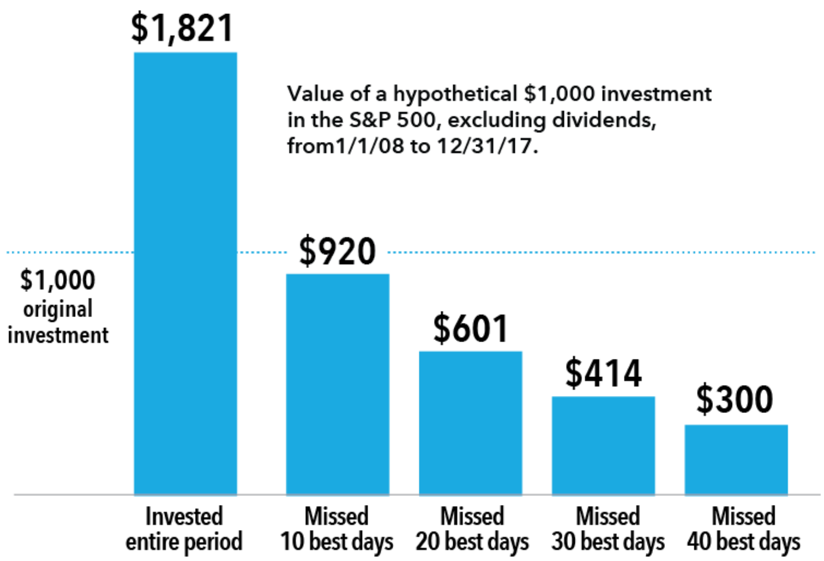
Don’t miss out on potential market rebounds

Although recoveries aren't guaranteed, taking your money out of the market during declines means that if you don't get back in at the right time, you'll miss the full benefit of market recoveries.

Consider this example of a hypothetical investor who sold stocks during the market downturn of 2008–2009, and then tried to time the market, jumping back in when it showed signs of improvement. Missing even the 10 best days of the recovery would have hurt that investor's long-term results — and the more missed "good" days, the steeper the loss.

Power of staying invested



Source: S&P 500 Index. The S&P 500 Index ("Index") is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2019 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC.

Try changing your perspective

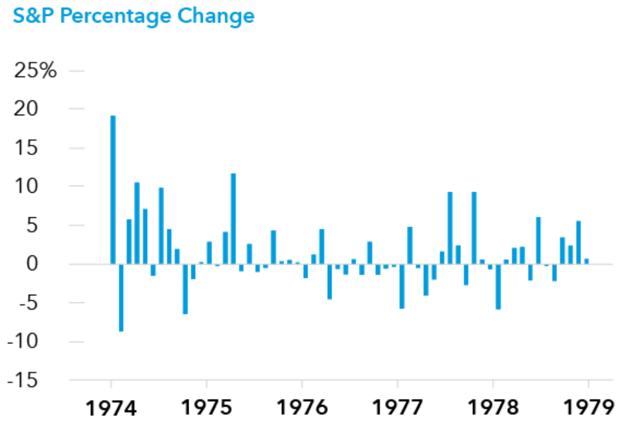
Investors expect a few bumps on the way to reaching their long-term goals. However, living through the market's short-term ups and downs is a different experience. Declines can be jarring, but during those times it's especially important to stay focused on long-term goals.

These charts provide two different views of what happened in the stock market during the five-year period after the S&P 500's 44.8% decline from January 11, 1973, to October 3, 1974. The main difference? An investor's perspective.

Short-term view

An investor who focused on the month-to-month performance of the S&P 500 might have experienced the market's volatility more acutely — and been tempted to sell their stocks at several different times over the five-year period.

Two views on same investment



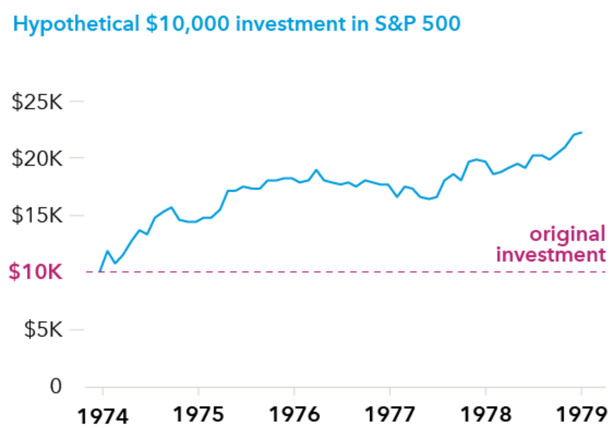
Short-term
This chart – which reflects how many people tend to view their investments – traces the monthly return of the stock market.

Source: Standard & Poor's.

Long-term perspective

An investor who stood back from the market's short-term movements and instead focused on the growth of a hypothetical investment would have a different take on volatility. While there were bumps along the way, staying the course meant being rewarded with a 17.4% total average annual return during this five-year period — well ahead of the S&P 500's lifetime total average annual return of 9.9% through December 31, 2018.

Two views on same investment



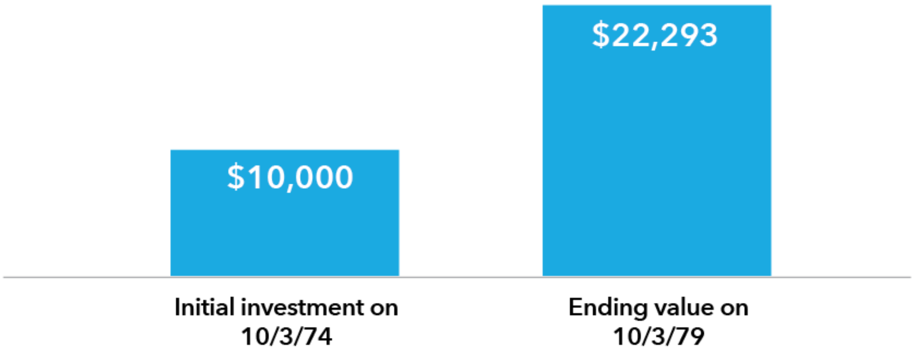
… or long-term
This chart shows the growth of a $10,000 investment over that same period and illustrates how short-term fluctuations have tended to smooth out over time.

Source: Standard & Poor's.

Goals-based focus

The best approach may be to pay less attention to investment returns and instead focus on progress toward real-world objectives. While past results do not guarantee results in future periods, this final chart shows how a $10,000 hypothetical investment more than doubled during the five-year period — providing this investor more than $22,000 to help pay for their important life goals.

Hypothetical $10,000 investment in the S&P 500 (10/3/74–10/3/79)



Source: Standard & Poor's.

The bottom line

Think you can time the market? Missing even a few days of recovery can have a drastic effect on your results. Instead, acknowledge that downturns are an inevitable part of investing and look beyond market timing and short-term volatility. Focus on the long-term rewards the market has historically delivered, and you may move that much closer to your financial goals.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

Figures shown are past results and are not predictive of results in future periods.

Regular investing does not ensure a profit or protect against loss. Investors should consider their willingness to keep investing when share prices are declining.

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The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

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