

# Keys to prevailing through stock market declines

During periods of volatility in the stock market, you may have doubts about your long-term investment strategy. Here are five tips to help you avoid common pitfalls and stay on track toward achieving your financial goals.

## 1. Declines have been common and temporary occurrences.

**Problem:** Declines can cause imprudent behaviour by filling investors with dread and panic.

**Solution:** Realize that declines are inevitable and have not lasted forever.

**History has shown that stock market declines are a natural part of investing.**

While declines have varied in intensity and frequency, they have been somewhat regular events.

It may also reassure you to know that the market has always recovered from declines. Although past results don't guarantee future results, remembering that downturns have been temporary may help assuage your fears.

"The market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people."

– Warren Buffett

**The bottom line?** Accept declines as a normal part of the investment cycle.

## A history of U.S. market declines

Standard & Poor's 500 Composite Index (1951-2021)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency*	About three times per year	About once per year	About once every three years	About once every six years
Average length†	43 days	110 days	251 days	370 days
Last occurrence	October 2021	September 2020	March 2020	March 2020

\* Assumes 50% recovery of lost value.

† Measures market high to market low.

Returns are in USD.

Sources: Capital Group, RIMES, Standard & Poor's. As of 12/31/21.

## 2. Proper perspective can help you remain calm.

**Problem:** Studies show that people place too much emphasis on recent events and disregard long-term realities.

**Solution:** Even amid a market downturn, remember that stocks have rewarded investors over time.

**The stock market has a reassuring history of recoveries.** After hitting lows in August 1939 and September 1974, the Standard & Poor's 500 Index bounced back strong, averaging annual total returns of more than 15% over the next 10 rolling 10-year periods in both cases.

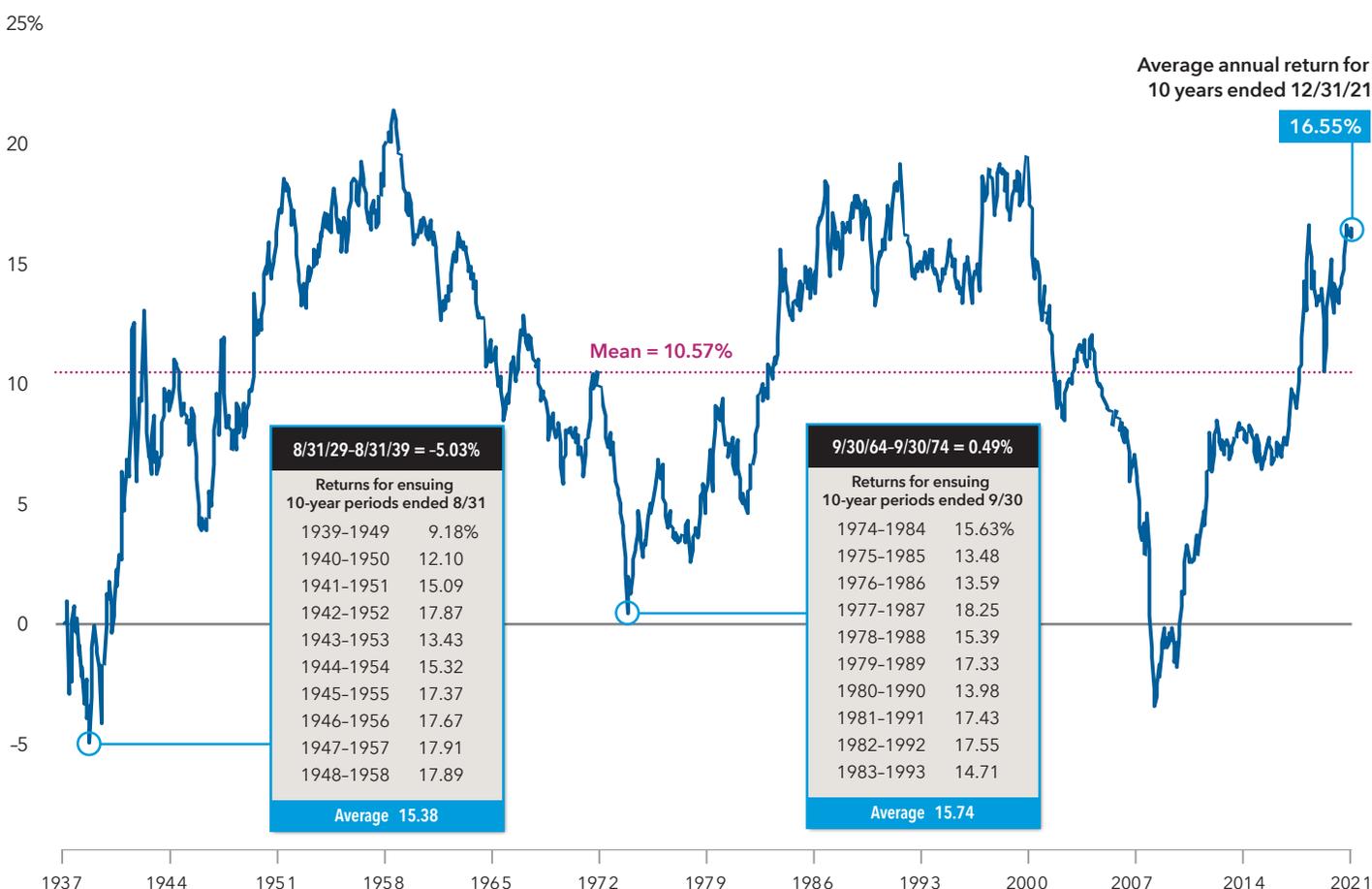
**Long-term investors have been rewarded.** Even including downturns, the S&P 500's mean return over all rolling 10-year periods from 1937 to December 2021 was 10.57%.

### The bottom line?

A long-term perspective can help you prevail through challenging times.

### S&P 500 rolling 10-year average annual total returns

December 31, 1937-December 31, 2021



Sources: Capital Group, Morningstar, RIMES, Standard & Poor's. As of 12/31/21.

Results are in USD and are calculated on a monthly basis. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index.

Past results are not predictive of results in future periods.

The Standard & Poor's 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

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### 3. Don't try to time the market.

**Problem:** Research has shown that losses feel twice as bad as gains feel good.

**Solution:** Keep in mind that fleeing the market to reduce losses could mean losing out on gains when stocks recover.

**The market has shown resilience.** Every S&P 500 downturn of about 15% or more since the 1930s has been followed by a recovery.

**Recoveries have been strong.** Returns in the first year after the five biggest market declines since 1929 ranged from 36.16% to 137.60%, and averaged 70.95% in U.S. dollar terms. Over a longer term, the average value of an investment more than doubled over the five years after each market low.

**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.

**The bottom line?** Consider staying invested – and don't try to time the market.

#### Five biggest U.S. market declines and subsequent five-year periods\*

1929-2021

		9/7/29-6/1/32	3/6/37-4/28/42	1/11/73-10/3/74	3/24/00-10/9/02	10/9/07-3/9/09	Average
Decline		-86.22%	-60.01%	-48.20%	-49.15%	-56.78%	
S&P 500 12-month returns† after low	1st yr.	137.60%	64.26%	44.43%	36.16%	72.29%	70.95%
	2nd yr.	0.52%	8.96	25.99	9.91	18.08	12.69
	3rd yr.	6.42%	31.08	-2.86	8.51	6.10	9.85
	4th yr.	56.68%	32.19	11.79	15.11	15.74	26.30
	5th yr.	16.52%	-19.89	12.82	18.06	23.65	10.23
Five-year average annual total return		35.93%	19.96	17.39	17.15	25.30	23.15
Value of a hypothetical \$10,000 investment in the S&P 500 at the end of the five-year period		\$46,401	\$24,841	\$22,293	\$22,067	\$30,890	\$28,322

\* 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.

† 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, the first year is the 12-month period from 3/9/09 to 3/9/10.

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. Investors cannot invest directly in an index. Past results are not predictive of results in future periods.

Returns are in USD. For illustrative purposes only; please consult your financial and/or tax advisors regarding your individual situation.

## 4. Seek investment managers that have helped investors prevail through market declines.

**Problem:** Market indices don't tell the whole story and can needlessly alarm investors.

**Solution:** Consider investing in funds run by investment managers who have proven long-term track records.

**Certain skilled investment managers have superior long-term track records.** Capital Group is among those proven managers with a long history of success, stemming from our long-term perspective and our emphasis on producing results that are less volatile than the broad market.

### The bottom line?

Invest for the long term with an investment manager that has a proven track record of success – in downturns as well as in bull markets.

## 5. Emotions can cloud your judgment.

**Problem:** Investors often make poor decisions when they let their emotions take over.

**Solution:** Stay focused on your long-term goals and carefully consider your options.

Have you heard the investment adage, "buy low, sell high"? Strong emotions during market swings can tempt you to do the opposite – buy high and sell low.

You may also feel that doing something – anything – during a downturn is better than doing nothing. Although inaction might seem counterintuitive, staying invested in the market could be the better choice.



### The bottom line?

Avoid making rash decisions based on emotions.

## Strategies to get through turbulent times

It can be unsettling to see the value of your investments fall. But during challenging times, try to keep some fundamental investing principles in mind:

### Look beyond the headlines.

Sensational news headlines are meant to grab your attention, but it can be dangerous to let the media influence your investment decisions. Ignore the noise and stay focused on your goals.

**Don't forget history.** Market declines are part of the economic cycle. Historically, recoveries have followed downturns.

### Maintain a diversified portfolio.

Different investments may go up and down at different times. Spreading your money over a variety of investment types and regions can help reduce volatility in your overall portfolio.

**Don't try to time the market.** No one knows the perfect times to get in and out of the market. Consider holding quality investments with the potential to rise in value over the long term.

**Invest regularly, even when the market is falling.** Instead of fearing down markets, think of them as opportunities to invest at lower prices.

**Keep in touch with your financial professional.** Your financial advisor can help you avoid making decisions that could jeopardize your long-term investment goals, which often remain unchanged during market declines.

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