A strategy to stay focused

Wealth Management

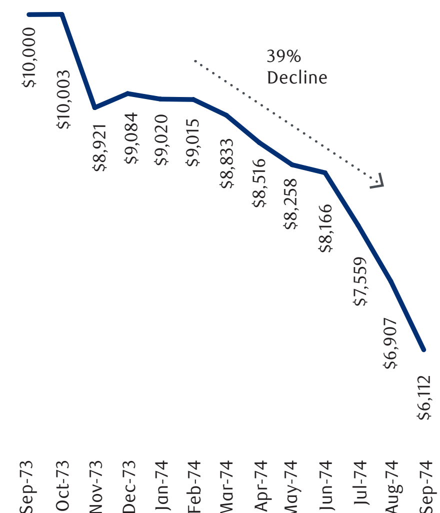
As markets continue to test the resolve of long-term investors, a look back at a similar period in history is a valuable reminder of the benefits of sticking to a long-term plan.

As an investor, you always have choices. But the decision to buy, sell or hold an investment at any point in time can make an enormous difference to your long-term results. Here are two examples to show how dramatic those differences can be.

Five options	Rationale
1. Sell all equity investments and move to Treasury Bills.	"I am losing too much money; it's time to cut my losses and look for security."
2. Sell all equity investments and wait one year to re-invest.	"The markets are too volatile right now; I'll sit this out for a year until things calm down."
3. Make no changes. Stay invested.	"Markets are down, but I'm confident that things will recover over time."
4. Set-up a regular investment plan to invest $83 per month ($1,000 per year) over the next 10 years.	"This decline is an attractive buying opportunity; I'm going to slowly add to my holdings at these lower prices."
5. Invest another $10,000 lump sum.	"Bear markets are the best time to maximize long-term gains by deploying cash."

$10,000 investment in the U.S. Market

October 1, 1973–September 30, 1974



Case study

Suppose you invested $10,000 in the S&P 500 Index on October 1, 1973.

In mid-market decline, your investment would have dropped to $7,559 by July 30, 1974. By the end of September 1974, when the market bottomed, your investment would have fallen to $6,112—a decline of almost 39%.

At these points, there are five possible options, each with their own rationale. What would you have done?

How would your investment have done if you acted at:

Scenario A: Market bottom

Selling equities for cash and not re-investing provided the worst outcome—an ending value of just $14,458 compared to $25,975 by staying invested. Not surprisingly, investing another $10,000 near the bottom of the market was the best strategy, with an ending market value of more than $68,471.

Another winning strategy was to start investing just $83 per month for 10 years for a total $10,000 investment. This strategy boosted the ending value to $46,289 compared to $25,975 from staying invested.

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Scenario B: Mid-market decline

Scenario A assumes you correctly picked the market bottom to invest in during 1974. For a more realistic scenario, this illustration uses a start date of August 1, 1974, when the U.S. market had declined by 27%, leaving you with a $7,559 value from your initial $10,000 investment. Permanently switching to cash still produced the worst outcome, and getting back into the market a year later was still not as rewarding as staying invested.

Once again, investing another lump sum of $10,000 produced the highest value, even though the investment was made well before the market bottom.

Setting up a regular investment plan also turned out to be a winning strategy in this case. Even without perfect timing, making small $83 automatic monthly investments for 10 years led to an ending value of $46,713 compared to $25,975 from simply staying invested.

Review your investment objectives

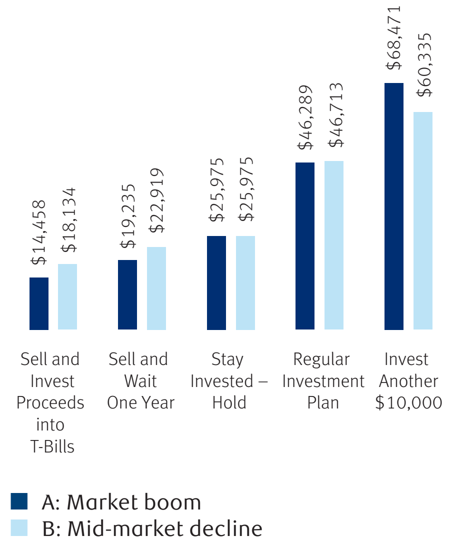
A bear market is a true test of how you really react to market declines. If you're concerned about market volatility, talk to your financial advisor to ensure your long-term investment objectives are on the right track.

A: Growth of $6,112 investment in the U.S. Market

October 1, 1974–September 30, 1984

B: Growth of $7,559 investment in the U.S. Market

August 1, 1974–September 30, 1984



Note: U.S. market represented by the S&P 500 Index.

All figures exclude the effects of taxes, management fees, and transaction costs. For illustrative purposes only and does not predict future values or performance. The S&P 500 Index is an unmanaged, capitalization weighted benchmark that tracks broad-based changes in the U.S. stock market. This index of 500 common stocks is comprised of 400 industrial, 20 transportation, 40 utility, and 40 financial companies representing major U.S. industry sectors. The index is calculated on a total return basis with dividends reinvested and is not available for direct investment.

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