T. Rowe Price®
INVEST WITH CONFIDENCE

SPEAKING OF MARKETS

THE HIGH COST OF CASHING OUT

When the stock market takes a dip, moving to cash can be a tempting option for investors seeking a respite from volatility.

However, cashing out of a declining market could come at a cost. Although past performance cannot guarantee future results, history shows that stock markets eventually recover. Investors who cash out not only could lock in investment losses, but could miss out on longer term gains as the market recovers, hurting their chances of achieving long-term financial success.

Short-term pain, long-term gain

Remember, long-term investment goals require a long-term perspective, particularly during periods of heightened market volatility. While it's hard to watch your portfolio fluctuate with the ups and downs of the market, sticking with your long-term strategy can pay-off over time.

A tale of two investors

To see the benefit of staying invested through all types of markets, let's consider two hypothetical investors—the first sticks to his investment strategy despite market fluctuations, and the second becomes anxious during volatile markets and jumps in and out.

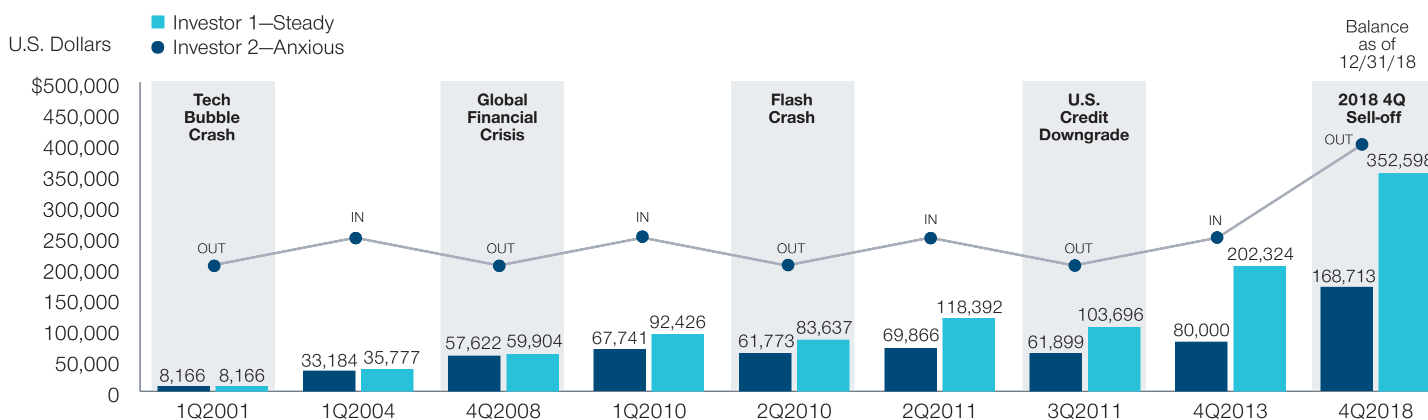
Both investors contributed $2,000 each quarter to their investment accounts. The steady investor (bright blue in the chart below) kept her money and ongoing contributions invested, riding out the stock market's ups and downs. The anxious investor (dark blue) moved his account balance and contributions to cash when stocks dropped 10% or more in a quarter, and only jumped back in to equities after a fourth consecutive quarter of positive returns. This behavior was repeated throughout several market cycles.

Stay invested in the market's growth story

While both investors saw their portfolio balances decline during downturns, they continued to contribute to their accounts. The steady investor took advantage of lower stock prices through her ongoing contributions and was rewarded as the market recovered. Ultimately, the anxious investor's account value ($168,713) was less than half of the steady long-term investor's account ($352,598) at the end of the period.

OUTCOMES FOR DIFFERENT STYLES OF HYPOTHETICAL INVESTORS

Both began investing $2,000 each quarter beginning 2000 through 2018



The "anxious" style of investor is assumed to be invested in 3-month Treasury bills as a cash equivalent. The $2,000 contributed each quarter in this example assumes minimal interest earned. The anxious style of investor also assumes that cash is invested in Treasury bills during those periods when not invested in the stock market. The performance of stocks shown is that of the S&P 500 Stock Index, which measures the performance of large-capitalization companies that represent a broad spectrum of the U.S. economy. Charts are for illustrative purposes only. Investors cannot invest directly in an index. ***Past performance cannot guarantee future results.***

Source: T. Rowe Price

IT'S POSSIBLE TO PROFIT FROM PATIENCE

It's nearly impossible to time the market and identify its peaks and troughs. If history is any guide, short-term drops in the stock market typically have been followed by longer-term rallies.

Stay invested for market recoveries

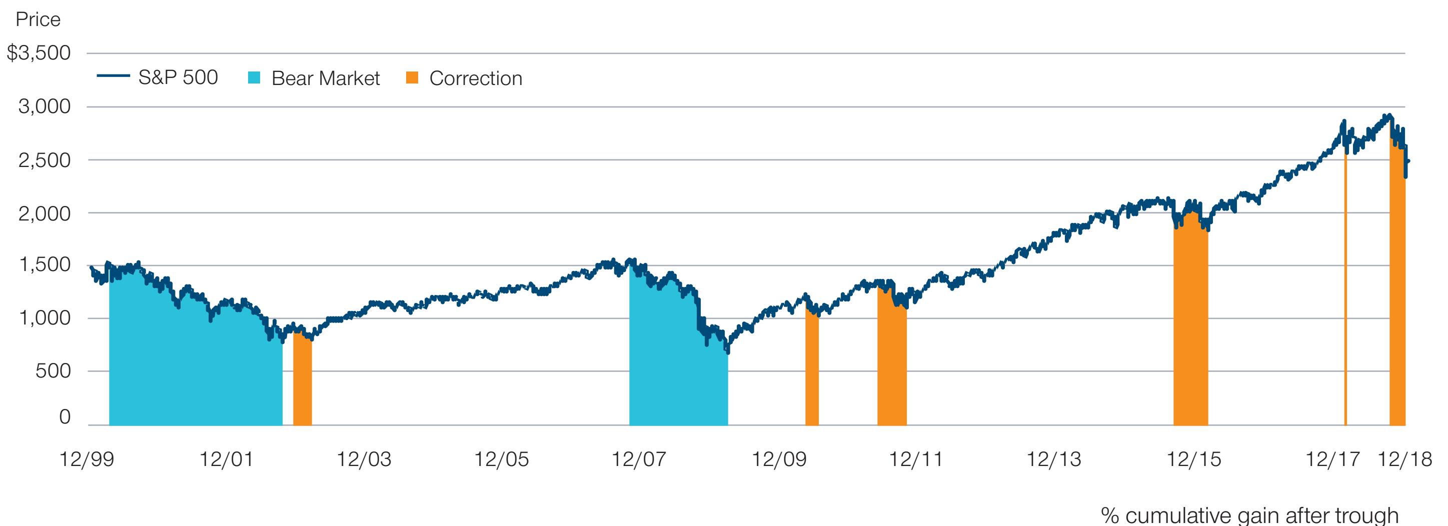
The graph below shows that after each correction (defined as a drop of at least 10%), the stock market typically recovered lost ground after three to six months. For the two bear markets (defined as a decline of at least 20%), stocks were back to their prior levels within four to five years.

Trying to time the market can result in two types of losses. First, converting stocks to cash after they have lost value can lock in those losses. Second, you could miss out on gains when the market rallies if you wait too long to get back in—like the anxious investor discussed earlier.

Don't let volatility change your plan

Market volatility is a given. Short-term downturns can be disconcerting, and they may heighten anxiety among some investors. If the stock market's historical trends hold true, a patient investor who absorbs short-term volatility can benefit over the long term.

BEAR MARKETS AND CORRECTIONS 2000–2018



Event	Date	Duration	% Drop	Recovery	% cumulative gain after trough: 1 Year	3 Years	5 Years
Tech Bubble Crash	Mar 2000–Oct 2002	2.5 years	-48.77	5 years	33.73%	52.86%	101.50%
Pre-Iraq War	Nov 2002–Mar 2003	3.5 months	-14.71	2.5 months	38.22	60.37	64.93
Global Financial Crisis	Oct 2007–Mar 2009	1.5 years	-56.39	4 years	66.83	99.89	174.53
Greek Debt Crisis/Flash Crash	Apr 2010–Jul 2010	2.5 months	-15.61	4 months	30.83	57.84	103.09
Debt Ceiling Debate/S&P Downgrade	Apr 2011–Oct 2011	5 months	-19.39	3 months	32.00	79.03	96.61
Post QE/China Growth Slowdown	Aug 2015–Feb 2016	6 months	-13.07	4 months	27.29	N/A	N/A
Jan/Feb 2018 Correction	Jan 2018–Feb 2018	0.5 months	-10.16	6.5 Months	N/A	N/A	N/A
Q4 Sell-Off	Sept 2018–Dec 2018	2 months	-19.78	—	N/A	N/A	N/A

Drop is based on the percentage drop from the highest market index value just prior to the correction to the lowest market index value. Recovery is defined as the length of time for the market to return to the previous highest market index value, rounded to the nearest number of months.

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