T. ROWE PRICE INSIGHTS
ON MARKET VOLATILITY

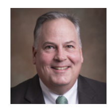
Does Staying the Course Still Make Sense?

Amid uncertain markets, sticking to a long-term plan may be the best move.

KEY INSIGHTS

- It is nearly impossible to accurately predict short-term movement in the market.
- Jumping into and out of equities could jeopardize a long-term retirement savings plan.
- For those who have shifted investments out of stocks, easing back into the market gradually can help get their strategy on track.

Judith Ward, CFP®
Senior Financial Planner



Roger Young, CFP®
Senior Financial Planner

The combination of a health crisis, a dramatic increase in market volatility, and a challenging economic future is leading even experienced investors to take a second look at their investment portfolios. "People have anxiety about their finances—both income and investments," says Judith Ward, CFP®, a senior financial planner with T. Rowe Price. "It can be hard to sit back and stay the course; there's a real temptation to do something."

An investor may feel compelled to reduce equity exposure in favor of something less volatile—in fact, some may have already moved assets out of stocks and into a money market investment or cash. There might be good reasons for changing an investment strategy, but acting on emotion or trying to anticipate the market's direction can compromise a portfolio's long-term return potential. In general, having an asset allocation aligned with the time horizon of an investor's goals is the most prudent path.

A case for staying invested

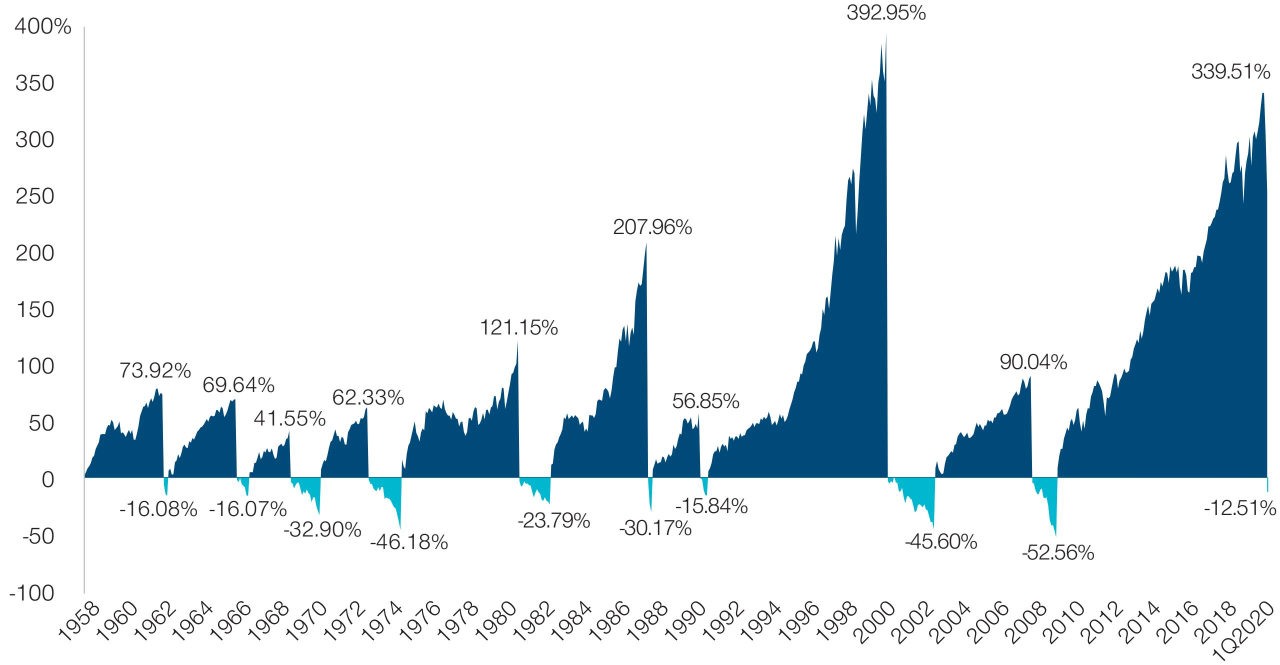
Staying the course takes patience and discipline and can be especially difficult during times of uncertainty. Investors with a healthy dose of equities in their portfolio are likely to benefit from the long-term growth potential of stocks since, over time, the magnitude of market gains has been significantly greater than that of losses. Using history as a guide, bear markets have been followed by long and sustained bull markets. (See "S&P 500 Returns in Bull and Bear Markets.") Of course, past performance cannot guarantee future results.

Another reason to stay invested is the difficulty of anticipating short-term market movements. "Very few of us saw such a rapid decline coming," says Roger Young, CFP®, a senior financial planner with T. Rowe Price. "Similarly, it would have been impossible to predict the partial rebound in April that came about despite bad news on the coronavirus and unemployment."

S&P 500 Returns in Bull and Bear Markets

Bull markets have historically averaged gains that are many times greater than the losses experienced during bear markets.

Cumulative S&P 500 price returns using month-end data, January 31, 1958, to March 31, 2020.



Past performance cannot guarantee future results.

Sources: Standard & Poor's and T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved.

The decision to reduce stock exposure—moving these assets into money market investments or cash—not only means anticipating when to exit the market but choosing when to reenter the market as well—thus requiring two acts of successful market timing. "Unfortunately, investors typically wait until the market drops to get out, then wait until the market shows improvement to get back in," says Ward.

While it may be challenging to stick with a long-term strategy, doing so means an investor could be well positioned to reap potential gains as the market recovers. (See "The High Cost of Cashing Out.") To illustrate the benefit of staying invested through all types of markets, let's consider two hypothetical investors—the first adheres to an 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 kept their money and ongoing contributions invested, riding out the stock market's ups and downs. The anxious investor moved their account balance and contributions to cash when stocks dropped 10% or more in a quarter and only jumped back into equities after a fourth consecutive quarter of positive returns. This behavior was repeated throughout several market cycles.

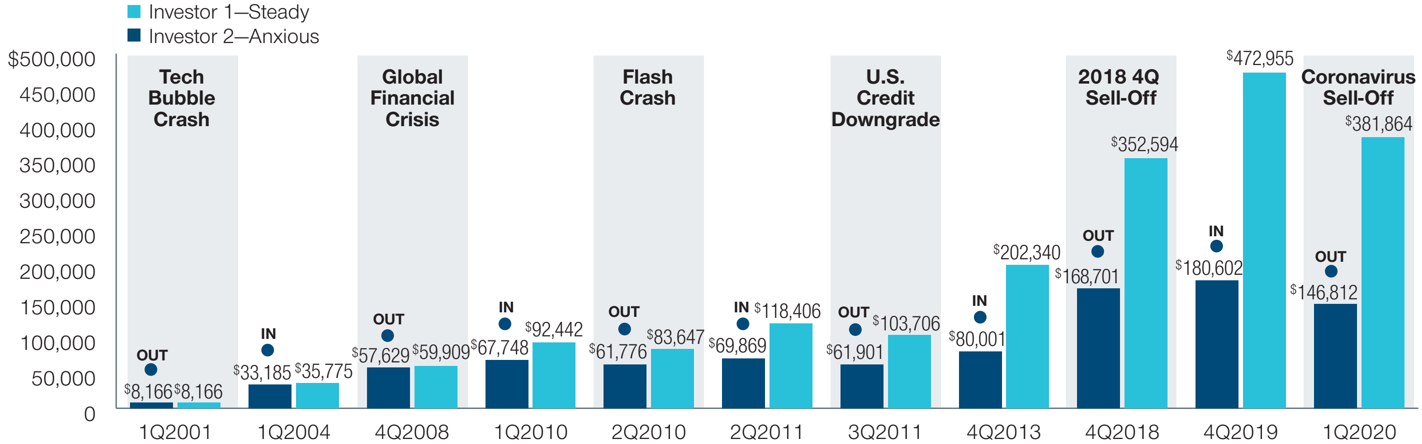
While both investors saw their portfolio balances decline during downturns, the steady investor took advantage of lower stock prices through ongoing contributions and was rewarded as the market recovered. Ultimately, the anxious investor's account value was less than half of the steady investor's account at the end of the period.

Investors who have already made changes

Some investors may have felt the need to act over the last few months—whether for tactical or emotionally driven reasons. Investors who have made changes could consider their motivation and what they can do now:

The High Cost of Cashing Out

Over time, a hypothetical steady investor who stays invested is likely to outperform a hypothetical anxious investor who jumps into and out of the market.



The "anxious" investor style is assumed to be invested in three-month Treasury bills as a cash equivalent. The $2,000 contributed each quarter in this example assumes minimal interest earned. The anxious investor style 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.
Sources: T. Rowe Price and Standard & Poor's.

Motivation: Increasing cash on hand

For those nearing retirement or already retired, keeping a cash reserve that could cover one to two years' worth of spending needs in retirement is a good general rule of thumb. It is ideal to build up this reserve in the years leading up to retirement.

What an investor can do now:
An investor concerned about increasing cash on hand could direct any new contributions to a money market account rather than exchanging investments out of stocks all at once. This would allow the investor to revisit their allocation strategy once the market and their emotions are in a better position.

Motivation: Lower tolerance for risk

After an 11-year bull market, investors may have allowed their portfolio to gain more equity exposure than their target allocation, thus taking on more risk than they were comfortable with. Alternatively, the investor's portfolio may reflect an intended target allocation, but perhaps the investor assumed they could handle a steeper downturn than they really could.

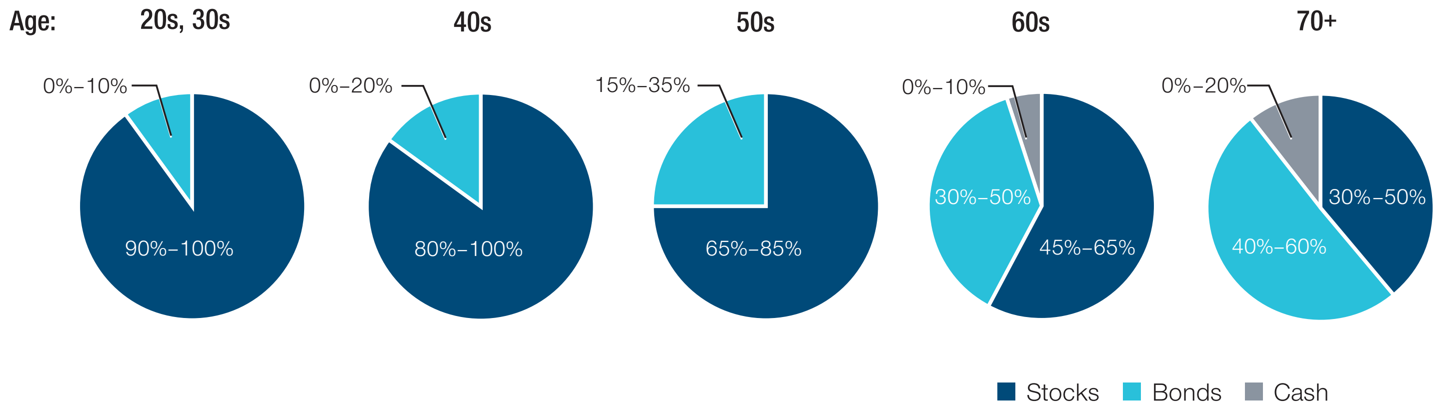
What an investor can do now:
Maintaining or modestly boosting an allocation to bonds can help buffer against these short-term declines. Even if the investor feels their equity exposure is currently too high, the key is to avoid acting out of fear. Since an asset mix can be a moving target during periods of volatility, an investor could set a schedule to periodically reevaluate an asset allocation based on their time horizon and risk tolerance.

Motivation: An emotional response

Sometimes, our emotions get the best of us, and an investor may have panicked and moved their equity assets to a money market investment. Perhaps it was unsettling to see an account balance slide, or they are remembering what happened to their investments during the 2008 financial crisis. Such an emotional response is understandable, but at some point, investors will need to get their strategy back on track. The people who were most impacted by the 2008 downturn were the investors who got out of stocks and didn't get back in.

Finding the Right Mix

As an investor gets closer to their retirement, their portfolio may move gradually from more aggressive (more stock) to more conservative (less stock). Below are T. Rowe Price age-based asset allocations for retirement.



What an investor can do now:

"The best advice we can give is to not wait too long," says Young. "There will be no all-clear signal to let investors know that markets have bottomed." Consider investing a little at a time by gradually purchasing stocks. Investors don't have to time it perfectly. Research by the T. Rowe Price investment team shows that rebalancing into stocks during a downturn historically improved results over the subsequent year, even if that adjustment was made a few months before or after the official market bottom.

The right target allocation

Whatever an investor's reasons for changing their strategy, reevaluating target asset allocation is an important first step to getting back on track. T. Rowe Price's sample retirement portfolios offer a good starting point. (See "Finding the Right Mix.") These portfolios show a range of equity exposures that we consider appropriate for various ages and time horizons. The range on display allows an investor to factor in their own risk tolerance. For example, an investor in their sixties could choose the lower end of the equity range in that model (45%) and still have enough growth potential for a portfolio to last for another two or three decades.

Looking ahead

We don't yet know when this pandemic will subside or how long the economy will take to recover. Investors who feel a strategy change is in order could consider gradual adjustments. They could also wait until the volatility subsides to make wholesale shifts to their strategy. "These are challenging times for many people," says Ward. "If investors control the important things, such as how much to save and spend, and position their investments to balance this short-term volatility with longer-term growth, they can give themselves the best chance to achieve a comfortable retirement."

These allocations are age-based only and do not take risk tolerance into account. Our asset allocation models are designed to meet the needs of a hypothetical investor with an assumed retirement age of 65 and a withdrawal horizon of 30 years. The model asset allocations are based upon analysis that seeks to balance long-term return potential with anticipated short-term volatility. The model reflects our view of appropriate levels of trade-off between potential return and short-term volatility for investors of certain ages or time frames. The longer the time frame for investing, the higher the allocation is to stocks (and the higher the volatility) versus bonds or cash.

Limitations

While the asset allocation models have been designed with reasonable assumptions and methods, the tool provides models based on the needs of hypothetical investors only and has certain limitations: The models do not take into account individual circumstances or preferences, and the model displayed for your investment goal and/or age may not align with your accumulation time frame, withdrawal horizon, or view of the appropriate levels of trade-off between potential return and short-term volatility. Investing consistent with a model allocation does not protect against losses or guarantee future results. Please be sure to take other assets, income, and investments into consideration in reviewing results that do not incorporate that information. Other T. Rowe Price educational tools or advice services use different assumptions and methods and may yield different outcomes.

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