

Assessing Where You Stand

The recession and market losses during the past year have caused many investors to question their investment strategies. Take the time now to discuss your concerns with your financial advisor, starting with the following areas:

Volatility

The past year has been a painful reminder of just how volatile the stock market can be over short periods. But history shows that the long-term picture is very different: The longer stocks are held in a portfolio, the less volatile their performance. While the stock market, based on the S&P 500 Index experienced negative returns in 24 of the 83 years since 1926, it suffered losses during only three 10-year periods—and didn't lose ground over any 20-year time frame.¹ Meanwhile, stocks' 9.6% annualized return significantly outperformed bonds (5.4%) and cash (3.7%) over the same period.¹ Past performance is not a guarantee of future results. The S&P 500 is an unmanaged index that tracks the stocks of 500 primarily large-capitalization U.S. companies. It is not possible to invest directly in an index.

Market Timing

It may be tempting to cash out of stocks and jump back into the market later when times are better. Trouble is, even seasoned investors prove time and again that no one can reliably predict when stock prices will rise. A recent study by market research firm DALBAR, Inc. found that fund investors dramatically lag the broad market, primarily because they choose the wrong times to jump into and out of stocks. For the 20 years ended December 31, 2008, investors earned an average annual return of just 1.9%, compared with 8.4% for the S&P 500 Index.² With this in mind, you stand to earn potentially stronger returns over the long run if you simply stay invested, rather than try to time the market.

Rebalancing

Stocks' poor performance means your portfolio's equity allocation is probably smaller than it was a year ago. If you have too little invested in stocks, you won't benefit fully from any rebound—potentially making your portfolio more conservative than you intended and reducing its long-term returns. The solution: Compare your portfolio's target asset allocation with its current allocation. You may need to rebalance. One way is to gradually purchase more stocks or stock funds while trimming your bond and cash holdings. Some of your investment accounts may already do this automatically. Remember: Bear markets have not lasted forever. With a solid investment strategy, you'll be able to structure and maintain a portfolio that can manage temporary downturns and give you the best chance to reach your long term goals.

¹ Ibbotson Associates, a subsidiary of Morningstar, Inc. Bond return is based on the Intermediate-term Government Bond Index. Cash return is based on the 30-day Treasury bill.

² DALBAR, Inc., "2009 Quantitative Analysis of Investor Behavior."