

Lessons From a Volatile Decade

The past 10 years have taken investors on a rollercoaster ride. The decade included two of the worst bear markets¹ in U.S. stock-market history, fueled by deep recessions. But it also hosted a long running economic expansion and bull market—and ended with one of the most powerful stock rallies on record.

That tumultuous environment offered important lessons for retirement investors. Most significantly, it underscored the value of building an appropriate investment strategy—and sticking with it no matter the market—based on the amount of time you have before drawing on your savings, and your personal tolerance for investment risk.

Ups and downs

Historically, every bear market has been followed by a recovery. Such was the pattern of 2000 to 2010. Investors were euphoric at the beginning of the decade, when the Internet-fueled growth left over from the late 1990s seemed unstoppable. In late 2000, however, the economy showed signs of weakness. An eight-month recession began in March 2001 and stocks dropped dramatically, only to rebound in November of that year.

A resurging economy during the next six years helped the Dow Jones Industrial Average soar from lows of around 7,500 in 2002 to above 14,000 in 2007.² The broader S&P 500 posted a similar gain, from the low 800s to more than 1,500.³ Then came the most severe recession in most investors' memory. By early March 2009, the Dow had fallen to 6,600 and the S&P to 680. From those lows, stocks rebounded more than 60% by year-end.⁴

As always, past performance is no guarantee of comparable future results.

What we learned

1. Stocks *are not* for the short term.

Investors who held funds they needed for pending expenditures in stocks, rather than in bonds and cash, may have fallen short of their goals.

2. Stocks *can be* for the long term.

All told, the S&P 500 lost an annual average of about 1.0% during the 2000s.⁵ But even after this difficult decade, stocks' longer-term returns significantly outpaced the performance of bonds and cash. Indeed, the S&P 500 gained 8.0%, annualized, during the 20 years through 2009.⁶

3. Jumping in and out of stocks *does not* work.

No one can predict the market's ups and downs—and not being invested when it rallies can hamper your assets' long-term performance. In fact, studies by the research firm DALBAR, Inc. have found that most investors who tend to jump in and out of the market do so at the wrong times, dramatically reducing their long-term returns.⁷

Looking ahead

Determine how much of your portfolio to invest in stocks, then maintain that allocation regardless of short-term market moves. Meanwhile, take full advantage of your workplace retirement account. Its benefits—especially the ability to shelter potential growth from taxes—can help position you for 2020, 2030 and beyond.

¹The Schwab Center for Financial Research defines a bear market as a decline of at least 10% in the S&P 500 Index, lasting six months.

²Thomson Reuters.

^{3,4,5}Standard & Poor's.

⁶Ibbotson S&P 2009 Classic Yearbook and Standard & Poor's.

⁷DALBAR, Inc., "Quantitative Analysis of Investor Behavior 2008."