CAPITAL GROUP℠

Guide to market recoveries

3 Mistakes

2020

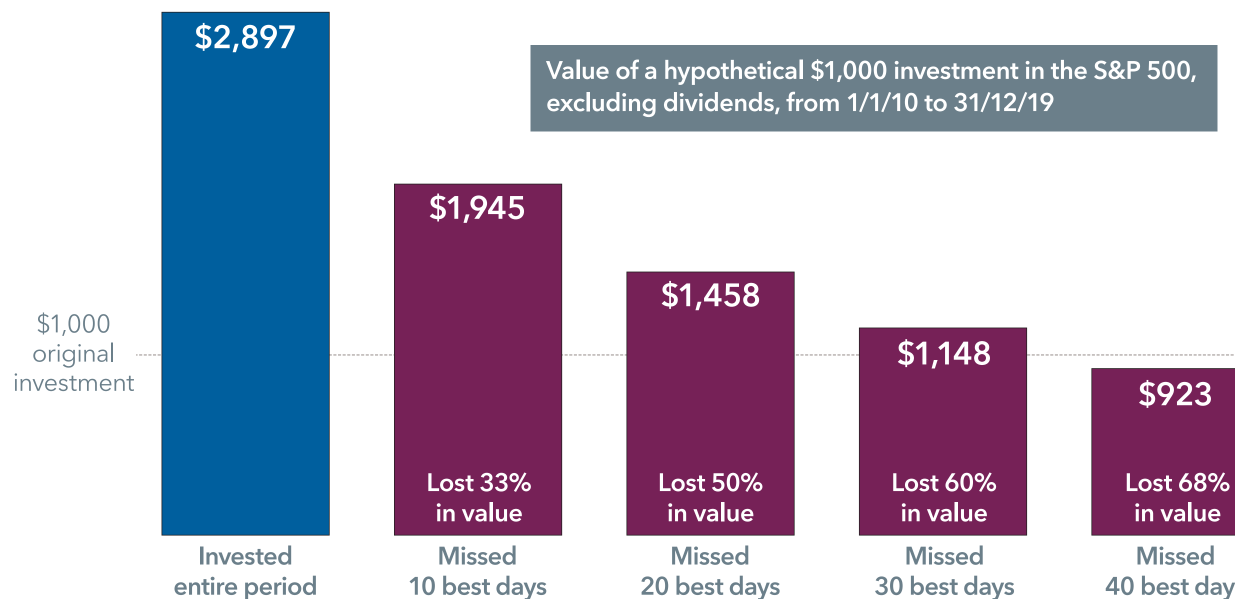
Mistake #1:
Trying to time markets

It's time, not timing, that matters in investing. Taking your money out of the market on the way down means that if you don't get back in at exactly the right time, you can't capture the full benefit of any recovery.

Consider this example of a hypothetical investor who sold stocks during the market downturn of 2008–2009, and then tried to time the US market, jumping back in when it showed signs of improvement. Missing even the 10 best days of the recovery would have significantly hurt that investor's long-term results – and the more missed "good" days, the more missed opportunities.

Investors who are more hesitant to put all of their excess capital to work at once may want to consider dollar cost averaging in volatile markets. Dollar cost averaging during a decline allows you to purchase more shares at a lower average cost, and when markets eventually rise, those extra shares can enhance your portfolio's value.

Missing just a few of the market's best days can hurt investment returns



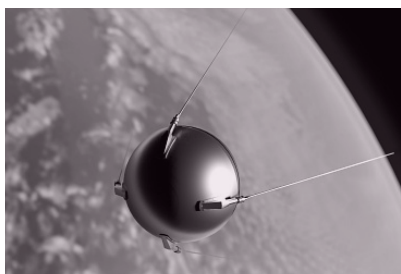
Past results are not a guarantee of future results.
Sources: RIMES, Standard & Poor's. As of 31/12/19. Values in USD. Investors cannot invest directly in an index.

Mistake #2:
Assuming today's negative headlines make it a bad time to invest

Today's economic and geopolitical challenges may seem unprecedented, but a look through history shows that there have always been reasons not to invest. Despite the negative headlines, the market's long-term trend has always been higher.

Great investment opportunities often emerge when investors are feeling most pessimistic. The coronavirus outbreak may be unlike anything we have faced before, but uncertainty is nothing new to the market, which has been resilient over time.

Here's what would have happened (in terms of dollar amounts and average annual total returns) to a hypothetical $10,000 investment in the S&P 500 Index on these historic days:



Pearl Harbour was bombed. (December 7, 1941)

- 10 years later: $44,855 | 16.2%
- As of 12/31/19: $53,826,691 | 11.6%

The Soviets launched Sputnik, vaulting into space ahead of the US (October 4, 1957)

- 10 years later: $31,387 | 12.1%
- As of 12/31/19: $4,959,491 | 10.5%

President Kennedy was assassinated. (November 22, 1963)

- 10 years later: $19,729 | 7.0%
- As of 12/31/19: $2,480,003 | 10.3%

President Nixon resigned. (August 9, 1974)

- 10 years later: $33,517 | 12.9%
- As of 12/31/19: $1,506,269 | 11.7%

The Dow Jones Industrial Average dropped a record 22% in one day. (October 19, 1987)

- 10 years later: $56,514 | 18.9%
- As of 12/31/19: $294,140 | 11.1%

Lehman Brothers declares bankruptcy. (September 15, 2008)

- 10 years later: $30,193 | 11.7%
- As of 12/31/19: $34,453 | 11.6%

Past results are not a guarantee of future results. Examples provided for illustrative purposes only.

Source: Capital Group. Indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

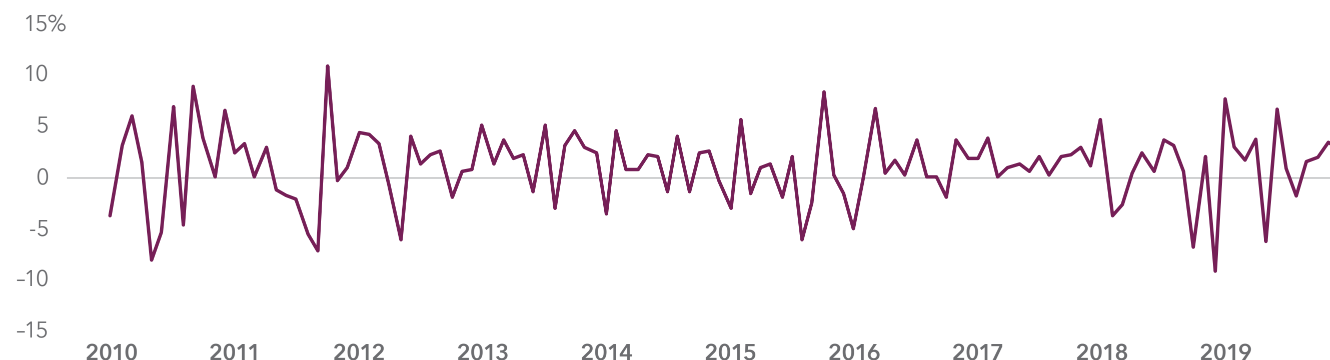
Mistake #3:
Focusing too much on the short term

Market volatility is especially uncomfortable when you focus on short-term ups and downs. Instead, extend your time horizon to focus on the long-term growth of your investments and the progress you've made toward your goals.

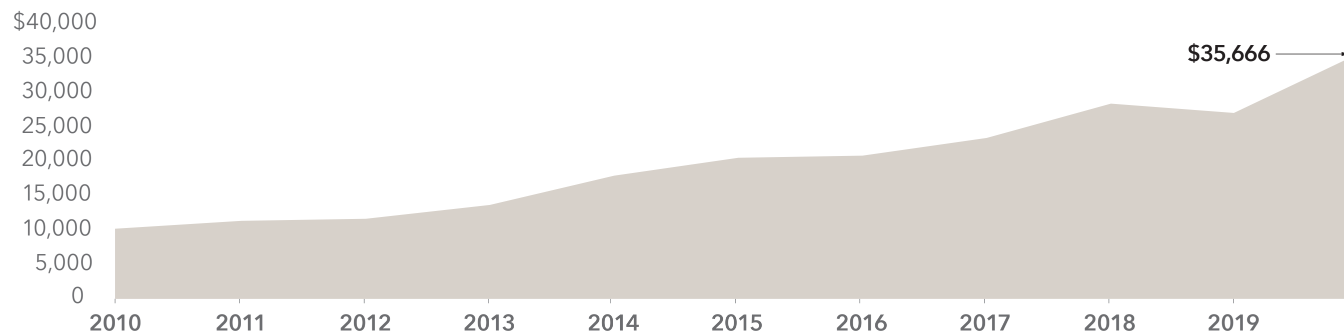
Consider the two charts to the right which represent contrasting perspectives of the same hypothetical investment. The short-term view is one that many investors have of their portfolios – tracing returns over short periods of time. The long-term view plots the same exact investment over the same period, but shows annual change in the portfolio value invested instead. With this perspective, the short-term fluctuations of the first chart have smoothed out over time, and the picture of a growing portfolio becomes clearer.

Remember that bear markets don't last forever. Maintaining a long-term perspective can help keep investors focused on the goals that matter most.

Short-term view: Monthly returns are volatile



Long-term view: Portfolio grows smoothly over time



Past results are not a guarantee of future results

Source: Standard & Poor's. Short-term view shown by Standard & Poor's 500 Composite Index and reflected in monthly return percentages from 31/12/09 through 31/12/19. Long-term view represented by a hypothetical $10,000 initial investment in the same index from 31/12/09 through 31/12/19. The market index is unmanaged and, therefore, has no expenses. For illustrative purposes only. Investors cannot invest directly in an index.