THE WHITE PAPER

Strategies for Managing Your Assets

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Stay Invested -- Keep Long-Term Potential Alive

Sometimes human instinct lets us down. Take the natural response some investors have to down markets: Sell to avoid possible losses and stay out of the market until things improve.

But while sitting on the sidelines might seem like a smart defensive move, it can actually be hazardous to your wealth. Time and again, statistics have shown that remaining invested through the market's inevitable up and down cycles has been the wiser choice for long-term investors. Those who have tried to time the market have often ended up with lower returns.

Costly Misses

Consider the performance of the S&P 500, a broad measure of U.S. stocks.[1] It appreciated an average of 9.22% annually during the 20-year period ended December 31, 2013.[2] An investment of $10,000 would have grown to $58,353 over the 20 years. However, an investor who missed just the top five days would have ended up with $38,725, which is equal to an average annual gain of 7.0%. Missing the best 10 days in the 20-year period would have left the investor with $29,185, which is equivalent to an average gain of 5.5%. Investors who missed the top 30 days during this period would have ended up with $12,032 on their initial $10,000 investment, which translates to an annual gain of just 0.93%.[2]

Slow and Steady Wins the Race

However well-intentioned their market-timing tactics may be, investors too often end up chasing past winners, buying in just as the price turns down, or making the wrong guess about which will be the next hot stock. In addition to these mistakes, frequent turnover can increase trading costs and trigger unwanted capital gains, which further reduce returns.

Like the fabled race between the tortoise and the hare, the investor who moves steadily forward toward his or her goal may be more likely to succeed than the one who darts in and out of the market. Although past performance cannot guarantee future results, history shows that the patient investor who had held to a well-crafted strategy is likely to have the money available when opportunities emerge to invest in undervalued securities and areas of the market with long-term growth potential.

This article offers only an outline; it is not a definitive guide to all possible consequences and implications of any specific investment strategy. For this reason, be sure to seek advice from knowledgeable financial professionals.

[1]*Standard & Poor's Composite Index of 500 Stocks is an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. Investing in stocks involves risks, including loss of principal.*
[2]*Source: Wealth Management Systems Inc. This hypothetical example illustrates how a $10,000 investment would have been affected by missing the market's top-performing days over the 20-year period ended December 31, 2013. Stocks are represented by Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance is not a guarantee of future results.*

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