Long-term investors should look beyond stock market volatility

While stocks historically have been volatile, especially in response to major domestic or world events, a review of market data shows that their prices in many cases have returned to less volatile patterns over longer time periods. That can be good news for long-term investors.

Modest worldwide economic growth, fears about global trade policies and political turmoil in the U.S. and abroad are a few of the issues that have contributed to market volatility and investor uncertainty.

In the stock market, volatility typically refers to the size and frequency of price movements. In general, higher volatility means a wider range of potential gains and losses and the possibility of sharp price moves over short time periods.

An analysis of market data beginning with the years just prior to the 1929 stock market crash shows that periods of volatile price movements have not been unusual. Volatility historically has increased during times of major global events or economic disruption. It then gradually has declined for a period of time to what might be considered more normal levels, often after the triggering issues are resolved.

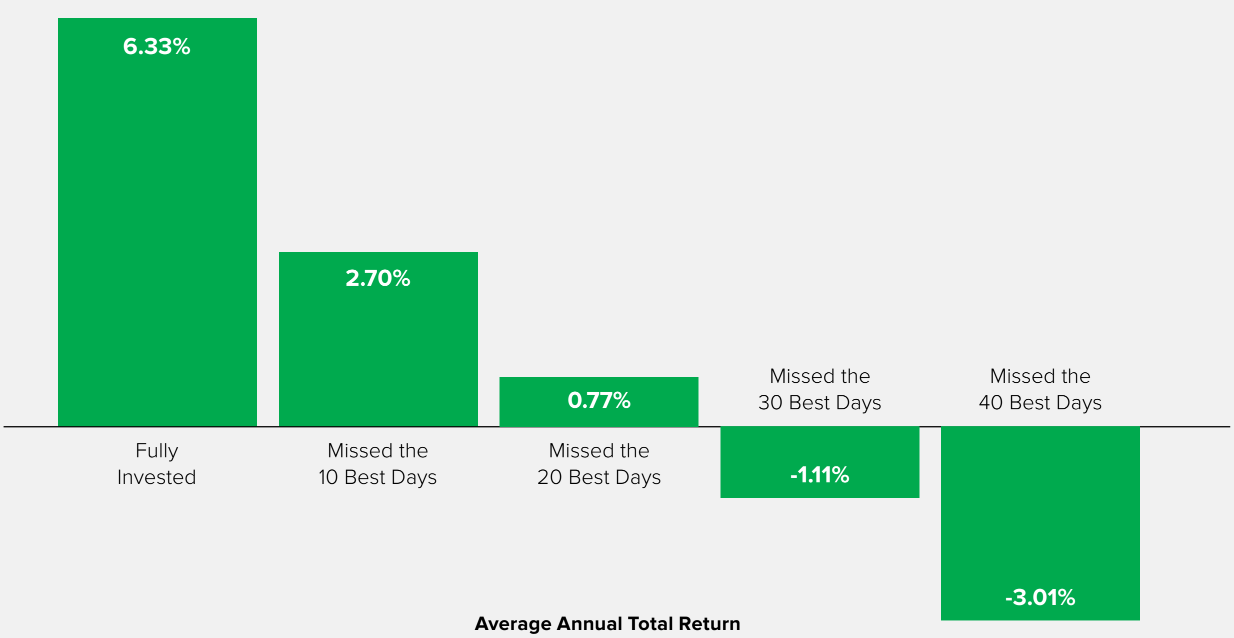
COST OF MISSING THE MARKET

Some people believe investing is a matter of timing. They say it is best to invest heavily in stocks when the market is going up, then get out when the market starts going down. But there is a problem with that strategy: Even the smartest investment professionals can't accurately predict the exact timing of such market moves.

Long-term investment success is more likely to be the result of a consistent approach, based on time in the market — not market timing. For example, selling when markets decline can put investors on the sidelines when stocks change direction. Turnarounds can happen quickly and typically have been strong in their early stages. Missing even a few of the stock market's best single-day performances could have a significant effect on an investment portfolio.

THE COST OF MISSING THE MARKET CAN BE SIGNIFICANT

Average annual total returns of the S&P 500 Index for the period 09/30/1999–09/30/2019



Source: Morningstar Direct. The S&P 500 Index is a float-adjusted market capitalization weighted index that measures the large-capitalization U.S. equity market. It is not possible to invest directly in an index. **Past performance is not a guarantee of future results.**

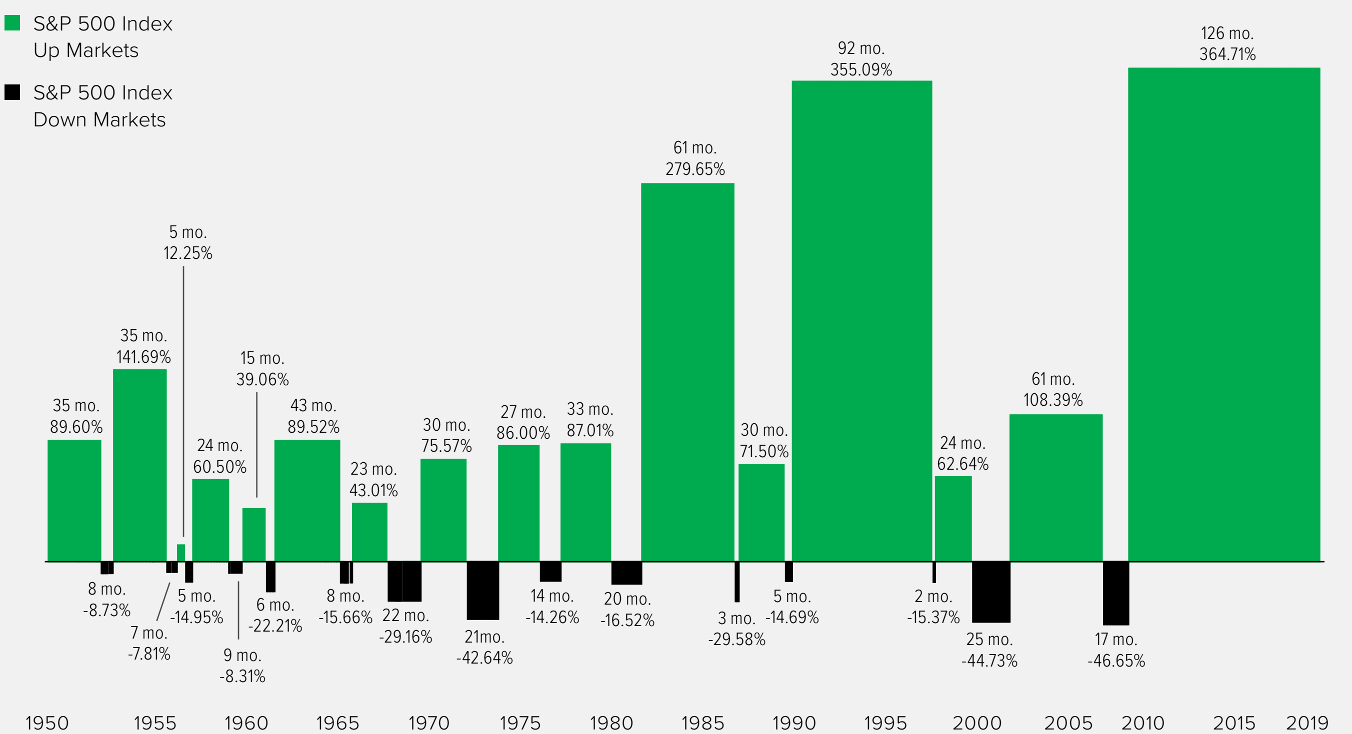
VALUE OF AN INVESTMENT PLAN

History shows that it is rare for the stock market to have two bad years in a row and even more rare to record three bad years in a row. When the market has recovered from downturns, it historically has done so with powerful rallies. In addition, bull markets historically have lasted an average of three times longer than bear markets.

Even in the worst 20-year period the stock market has ever experienced — 1928 to 1948 — the S&P 500 Index posted an average annual gain of 0.55%. While that is a modest amount, remember that those two decades included the Crash of 1929 and the Great Depression of the 1930s, when unemployment soared to 25%, U.S. gross domestic product plunged by more than 30% and land values plummeted more than 50%. Despite the economic challenges of those difficult years, a patient and committed investor could have had a positive return on money invested in the stock market.

Overall, history shows that patient investors who remain focused on the long term may withstand turbulent periods and take advantage of the opportunities that global change can bring.

GOOD YEARS HAVE TENDED TO FOLLOW BAD YEARS



Source: Morningstar Direct. Annual returns of S&P 500 Index, February 1950–September 2019, assuming reinvestment of dividends. The S&P 500 Index is a float-adjusted market capitalization weighted index that measures the large-capitalization U.S. equity market. It is not possible to invest directly in an index. **Past performance is not a guarantee of future results.**