

# Staying Rational

During Market Sell-offs

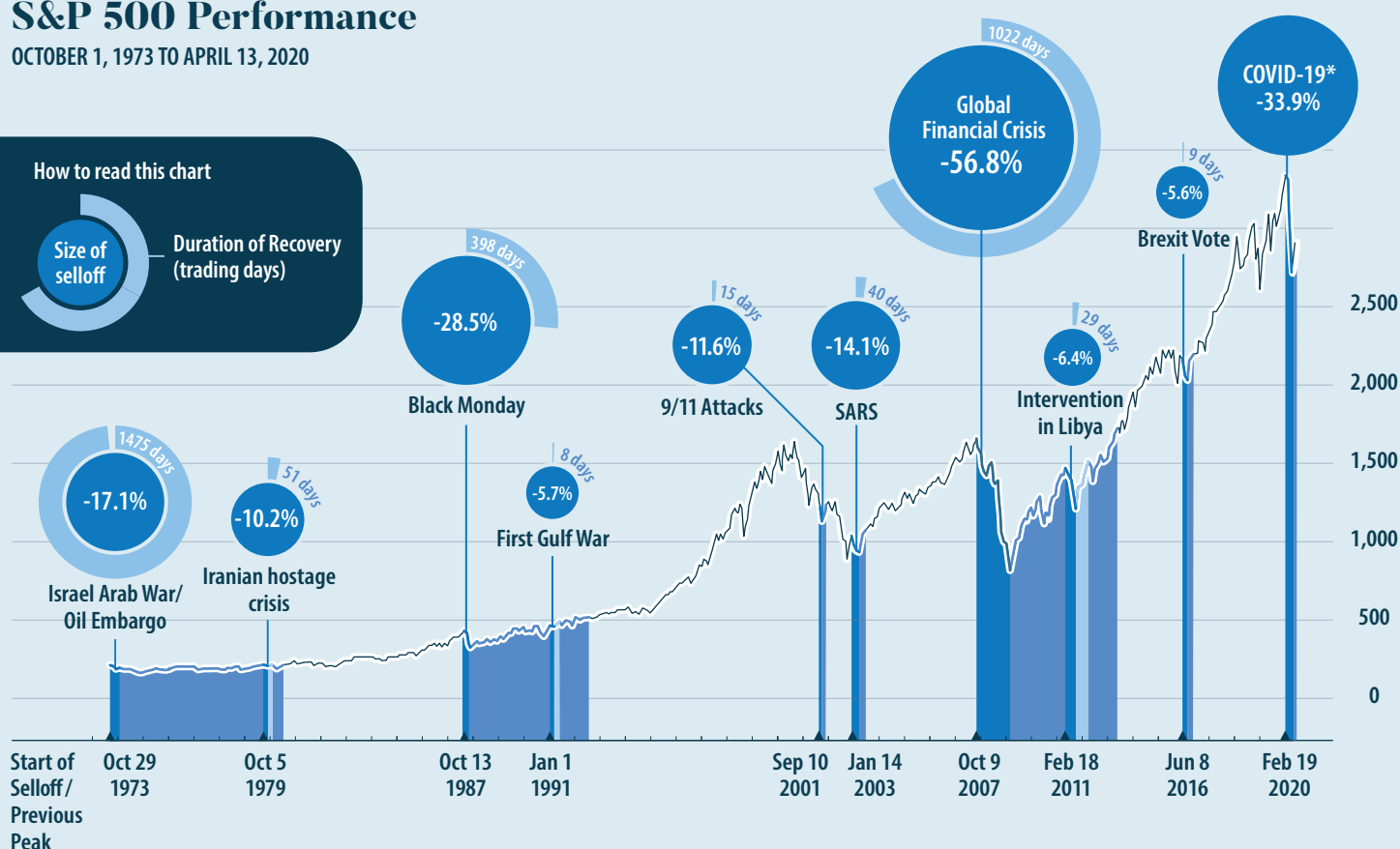
To put volatility into perspective, it can be helpful to look at market sell-offs through a historical lens.

## Market Rebounds Over Time

Rare, unexpected events—known as Black Swans—can have severe consequences, but the market has recovered each time.

### S&P 500 Performance

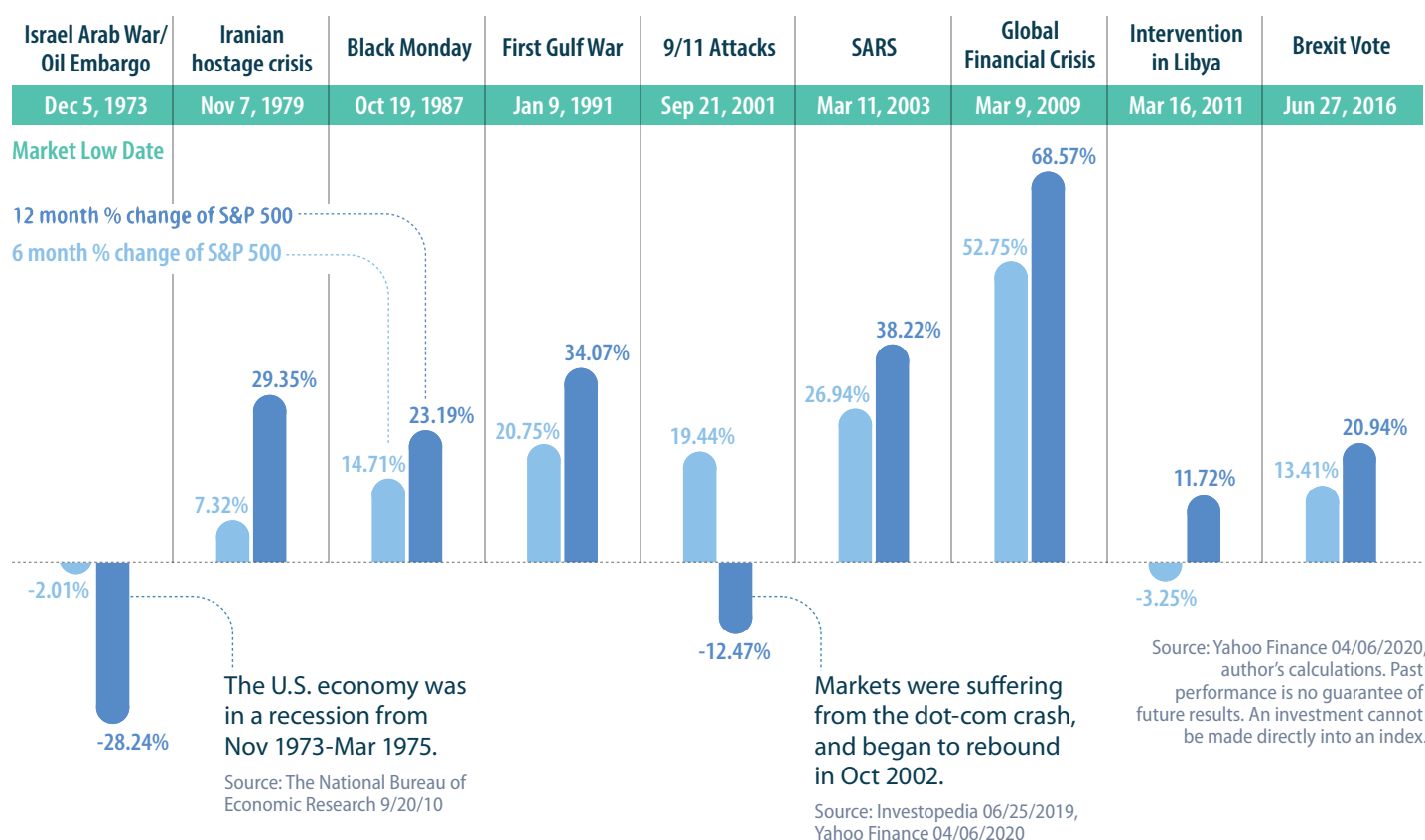
OCTOBER 1, 1973 TO APRIL 13, 2020



\*Figure as of market close on April 13, 2020. The sell-off size measures the change from the market high to the market low.

Source: Haver, Deutsche Bank via ZeroHedge 09/02/2017, Yahoo Finance 04/13/2020  
Past performance is no guarantee of future results. An investment cannot be made directly into an index.

In fact, downturns have historically been short-lived, with the S&P 500 seeing 12-month gains in most cases.



While it can be tempting to sell in the midst of a downturn, investors who hold their investments historically see much greater returns.



# A Tale of Two Investors



To see how this plays out, let's rewind to the Global Financial Crisis. Two hypothetical investors, **Sharon** and **Barbara**, both start out with a \$1,000 investment. How do their returns differ over a 7 year period?

Sharon reacts emotionally as the market declines.



At the end of 7 years,  
Sharon has \$531.

\$531

Barbara reacts rationally despite the downturn.



At the end of 7 years,  
Barbara has \$1,232.

\$1,232

Source: Yahoo Finance 04/06/2020, author's calculations. This chart is for illustrative purposes only and does not represent investment advice. Past performance is no guarantee of future results. An investment cannot be made directly into an index.

It's evident that markets have historically rebounded over time. However, what can investors do now to help manage their long-term savings?

# Taking Action

Investors can follow a three-part framework to help manage and continue to build their nest egg.

Source: MarketWatch 03/16/2020

1

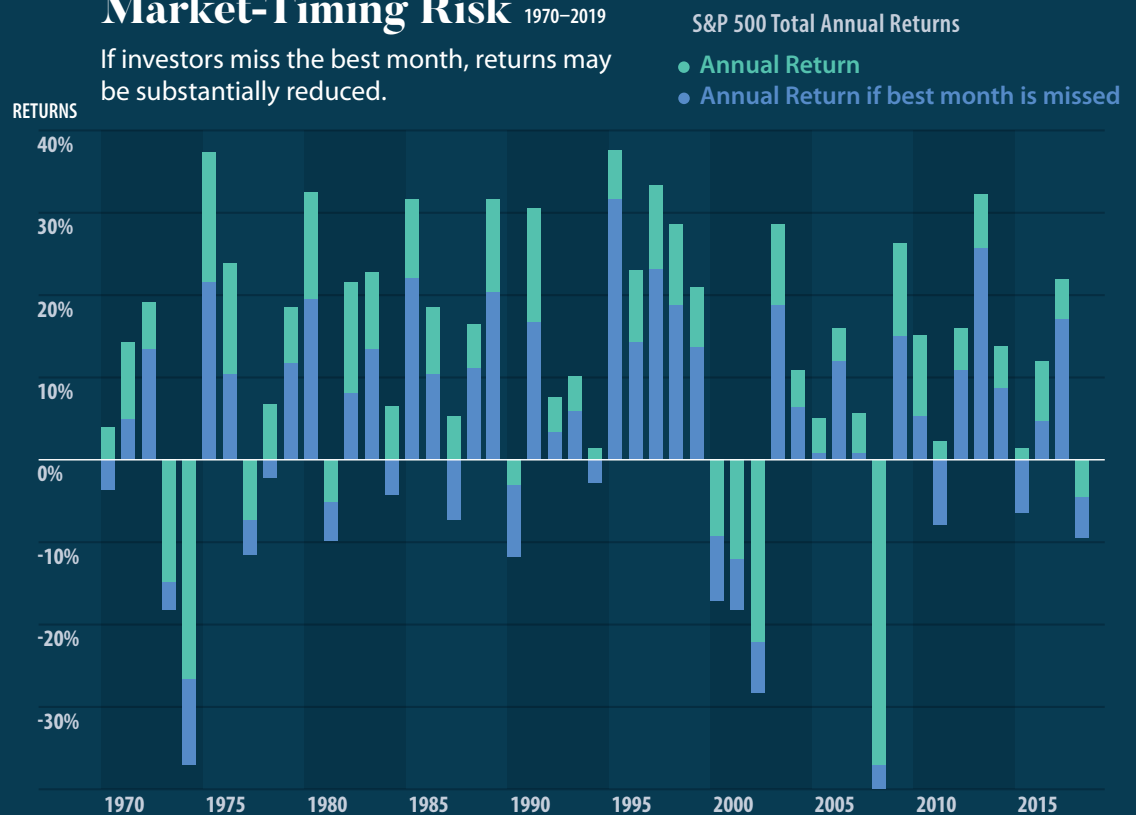
## Stay the course

Most investors can hold onto their securities, especially if they are a long way from retirement.

If they are making regular contributions, investors can continue them rather than trying to time the market.

### Market-Timing Risk 1970–2019

If investors miss the best month, returns may be substantially reduced.



Source: Morningstar 03/18/2020.

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Downturns can result in relatively attractive valuations, and dollar cost averaging allows investors to take advantage of the subsequent potential upswing.



# 2

## Revisit asset allocations

Investors should ensure that their asset allocation still reflects their personal circumstances, including:



**RISK  
TOLERANCE**



**AGE**



**DESIRED  
LIFESTYLE**



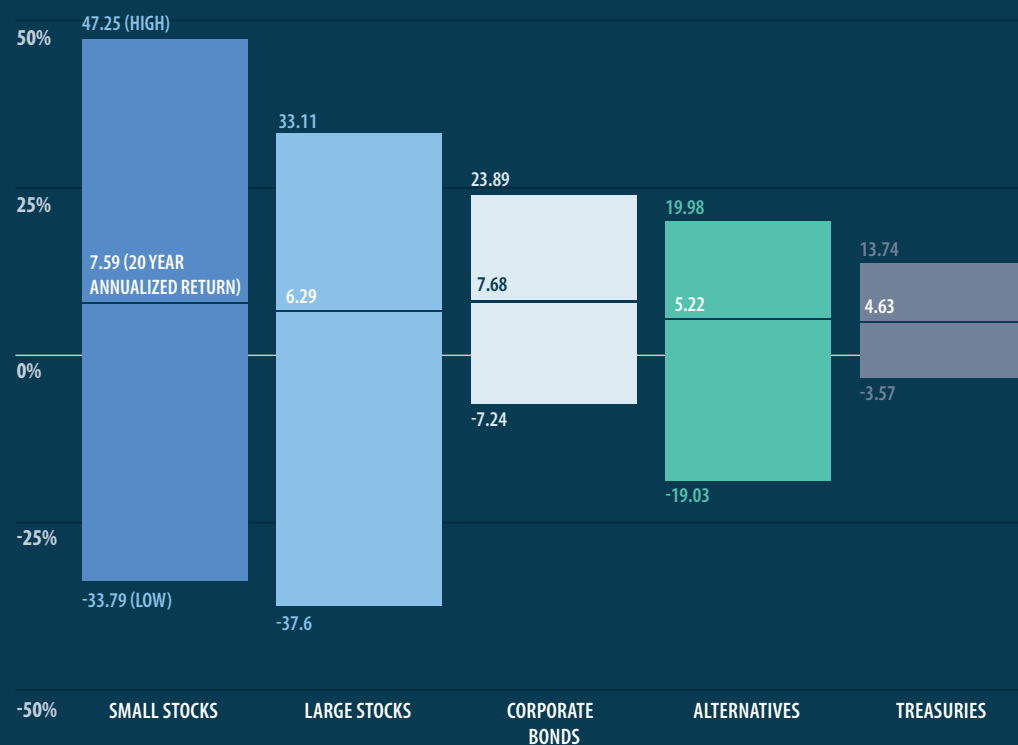
**OTHER  
AVAILABLE  
INCOME**

**Portfolio diversification is also extremely important, to help manage risk and provide a competitive return.**

For example, asset classes have a varying range of returns.

### Asset Class Returns %

Highs and lows: 2000-2019



Source: Morningstar 12/31/2019

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Through diversification, investors have a good chance of managing risk to help potentially reach their long-term goals.

# 3

## Keep emergency funds in cash

It may be tempting to put all extra funds into attractively-priced stocks. However, financial experts generally recommend that investors set aside about 6 months of living expenses in cash.

**If an investor is nearing/in retirement, they can consider:**



**KEEPING  
ADDITIONAL  
FUNDS IN CASH**



**HOLDING MORE  
SHORT-TERM  
INVESTMENTS**



**GENERATING EXTRA  
INCOME THROUGH  
PART-TIME WORK**

**By taking care of the basics,  
investors set a strong foundation**  
for building up long-term investment plans.