

When the stock market takes a dip, moving to cash can be a tempting option for investors seeking a respite from volatility.

However, cashing out of a declining market could come at a cost. Although past performance cannot guarantee future results, history shows that stock markets eventually recover. Investors who cash out not only could lock in investment losses, but could miss out on longer-term gains as the market recovers, hurting their chances of achieving long-term financial success.

Short-term pain, long-term gain

Remember, long-term investment goals require a long-term perspective, particularly during periods of heightened market volatility. While it’s hard to watch your portfolio fluctuate with the ups and downs of the market, sticking with your long-term strategy can pay off over time.

A tale of two investors

To see the benefit of staying invested through all types of markets, let’s consider two hypothetical investors—the first sticks to his investment strategy despite market fluctuations, and the second becomes anxious during volatile markets and jumps in and out.

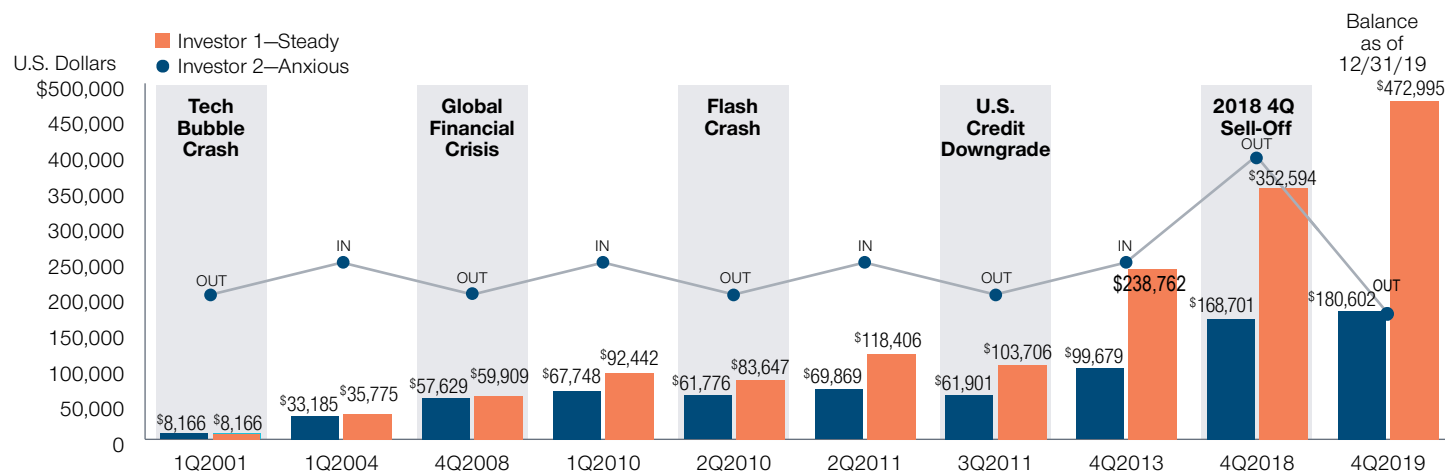
Both investors contributed \$2,000 each quarter to their investment accounts. The steady investor (bright orange in the chart below) kept her money and ongoing contributions invested, riding out the stock market’s ups and downs. The anxious investor (dark blue) moved his account balance and contributions to cash when stocks dropped 10% or more in a quarter and only jumped back in to equities after a fourth consecutive quarter of positive returns. This behavior was repeated throughout several market cycles.

Stay invested in the market’s growth story

While both investors saw their portfolio balances decline during downturns, they continued to contribute to their accounts. The steady investor took advantage of lower stock prices through her ongoing contributions and was rewarded as the market recovered. Ultimately, the anxious investor’s account value (\$180,602) was less than half of the steady long-term investor’s account (\$472,955) at the end of the period.

OUTCOMES FOR DIFFERENT STYLES OF HYPOTHETICAL INVESTORS

Both began investing \$2,000 each quarter beginning 2000 through 2019



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The “anxious” style of investor is assumed to be invested in 3-month Treasury bills as a cash equivalent. The \$2,000 contributed each quarter in this example assumes minimal interest earned. The anxious style of investor also assumes that cash is invested in Treasury bills during those periods when not invested in the stock market. The performance of stocks shown is that of the S&P 500 Stock Index, which measures the performance of large-capitalization companies that represent a broad spectrum of the U.S. economy. Charts are for illustrative purposes only. Investors cannot invest directly in an index. Past performance cannot guarantee future results.

The above information is provided by: T. Rowe Price and S&P.