T.Rowe Price®
INVEST WITH CONFIDENCE

SPEAKING OF MARKETS

THE HIGH COST OF CASHING OUT

When the market takes a dip, moving to cash is tempting for some skittish investors seeking a short-term respite from volatility.

But cashing out of a declining market comes at a price. While you may avoid an immediate loss, you also potentially miss out on future gains because you don't know when the market will rebound. Ultimately, jumping into and out of the stock market could hurt your chances of achieving your long-term financial goals.

Short-term pain, long-term gain

Remember, you are only realizing a loss on your investments if you cash them out. So, keeping a long-term perspective is important when markets are volatile. If the money you invested was never intended for short-term use, don't be short-sighted about your strategy now. Staying patient can prove to be beneficial over time. It's hard to watch your account balance fluctuate when that hard-earned money is tied to your future plans and dreams. While past performance cannot guarantee future results, the past has shown us that markets are resilient.

A tale of two investors

To see the benefit of staying invested through all types of markets, consider the tale of two hypothetical investors—one steadfast and one skittish.

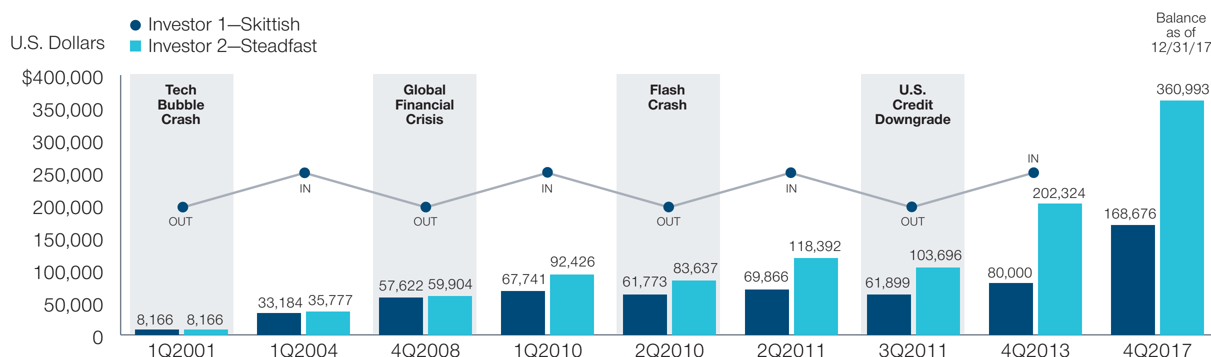
Both investors contributed $2,000 each quarter to their account. The steadfast investor (bright blue in the chart below) kept the money and ongoing contributions in the stock market, riding out any ups and downs. The skittish investor (dark blue) started in the stock market, but moved the account balance and contributions to cash after the market dropped 10% or more in a quarter. The skittish investor waited until there were four consecutive quarters of positive returns to shift his balance and quarterly contributions back into the stock market. This behavior was repeated throughout several market events.

Stay invested in the market's growth story

As the chart below shows, while both investors saw their account balances decline during market downturns, they continued to contribute to their accounts. The steadfast investor was rewarded for staying in the market and was able take advantage of lower stock market prices. When the market rebounded, the steadfast investor's portfolio grew at a higher rate than that of the skittish investor. The skittish investor, who wasn't comfortable with market fluctuations, has less than half the money ($168,676) than the steadfast investor ($360,993) who stayed the course.

OUTCOMES FOR DIFFERENT STYLES OF HYPOTHETICAL INVESTORS

Both began investing $2,000 each quarter beginning 2000 through 2017



The "skittish" 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 skittish 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.***

Source: T. Rowe Price

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PROFITING FROM PATIENCE

It's nearly impossible to time the market and identify its peaks and troughs. If history is any guide, short-term drops in the stock market typically have been followed by longer-term rallies.

Stay invested for market recoveries

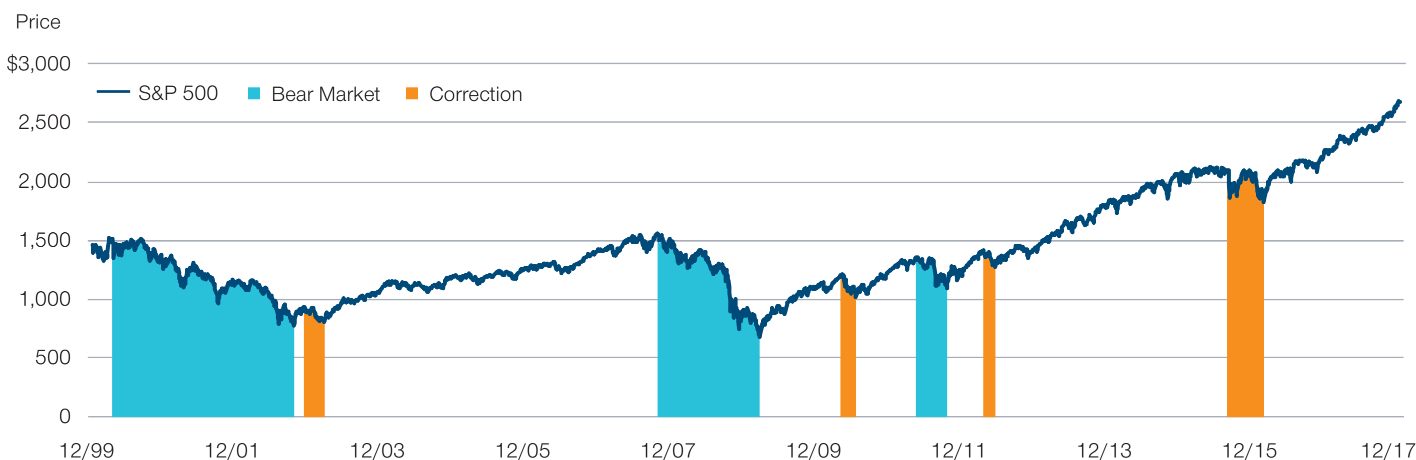
The graph below shows that after the market corrections (defined as a drop of at least 10%), the market typically rebounded in approximately three to four months. For the two bear markets (defined as a decline of at least 20%), the market was back to its prior levels within four to five years.

Trying to time the market can result in two types of losses. By selling assets when they have lost some value and going to cash, you are locking in those losses. In addition, you'll miss out on some of the gains when the market rallies if you wait too long to get back in the market—like the skittish investor.

Don't let volatility change your plan

Market volatility is a given. Short-term downturns can be disconcerting, and they may prey upon investors' emotions. However, the market's long-term trend has been positive. If you stay patient, and can absorb some volatility, that trend can work in your favor.

BEAR MARKETS AND CORRECTIONS 2000–2017



Event	Date	Duration	% Drop	Recovery	% cumulative gain after trough: 1 Year	3 Years	5 Years
Tech Bubble Crash	Mar 2000–Oct 2002	2.5 years	-48.77	5 years	33.73%	52.86%	101.50%
Pre-Iraq War	Nov 2002–Mar 2003	3.5 months	-14.71	2.5 months	38.22	60.37	64.93
Global Financial Crisis	Oct 2007–Mar 2009	1.5 years	-56.39	4 years	66.83	99.89	174.53
Greek Debt Crisis/Flash Crash	Apr 2010–Jul 2010	2.5 months	-15.61	4 months	30.83	57.84	103.09
Debt Ceiling Debate/S&P Downgrade	Apr 2011–Oct 2011	5 months	-19.39	3 months	32.00	79.03	96.61
Most Recent Corrections	Aug 2015–Feb 2016	6 months	-13.07	5 months	27.29	N/A	N/A

Drop is based on the percentage drop from the highest market index value just prior to the correction to the lowest market index value. Recovery is defined as the length of time for the market to return to the previous highest market index value, rounded to the nearest number of months.

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