A&I FINANCIAL SERVICES LLC
Optimizing Assets and Income

# The benefits of a long-term investment plan

## Your defense against market volatility

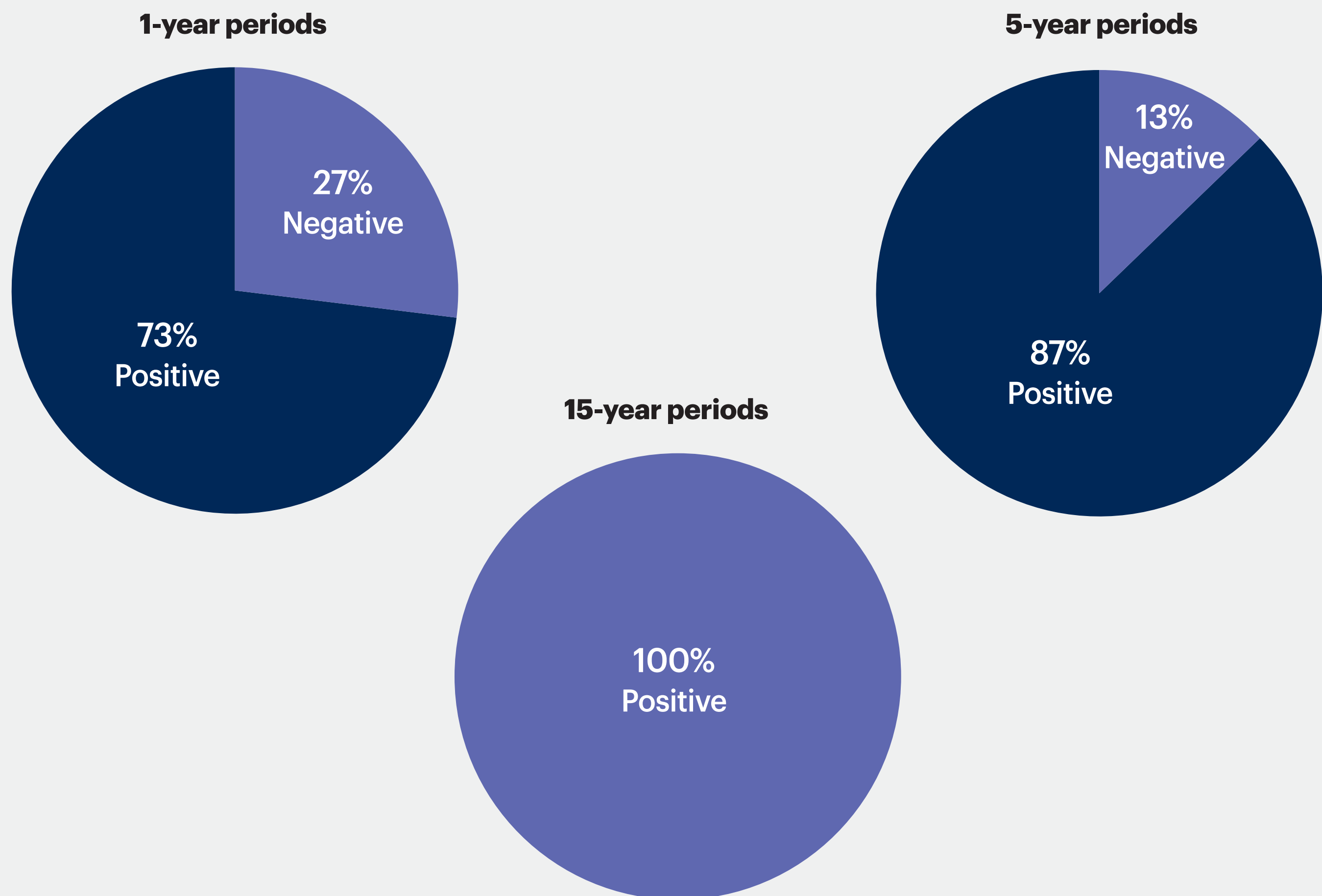
In the wake of the COVID-19 pandemic, stock markets have been extremely volatile. Like many investors, you may have become concerned by daily market gyrations and alarmed by declining investment performance.

In times like these, it can be easy to lose track of the importance of maintaining a long-term outlook. But it's important to remain calm and level-headed, and remember a few historical realities about investing.

## Being in the market for the long term has historically rewarded investors

In the short term, stock markets can swing dramatically. However, investors who have historically stayed the course with a long-term investment plan have typically been rewarded. On the flip side, investors who have historically fled the market right after a downturn have underperformed the market.

Though past performance is no guarantee of future results, the odds of achieving a positive return in the stock market have been much higher over a five- or 15-year period than for a single year (see chart below).



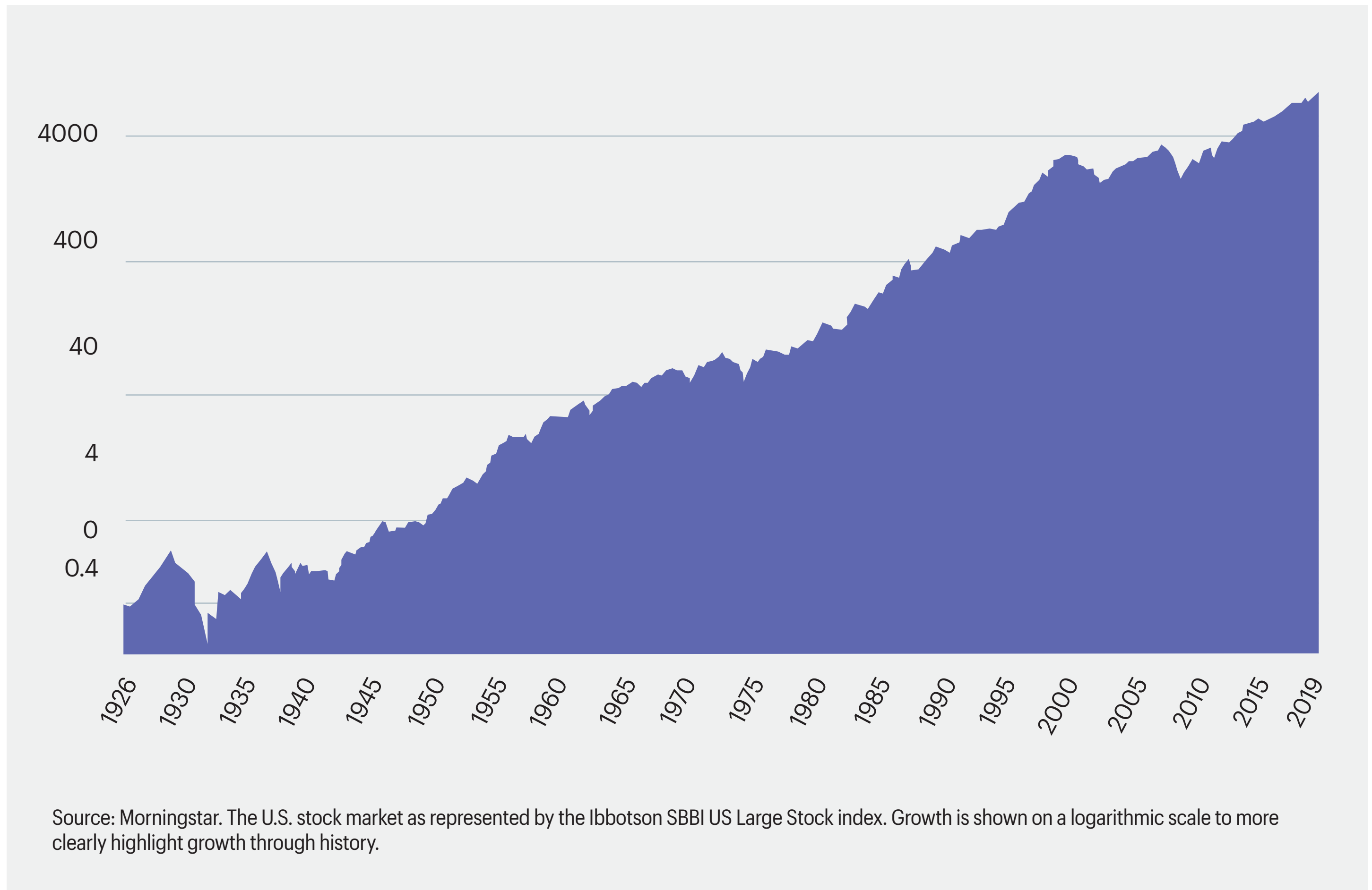

Source: Morningstar, 2018. Calculations based on the total returns of the S&P 500® Index over rolling 1-, 5-, and 10-year periods between 1926 and 2018. Chart is for illustrative purposes only and is not representative of the future performance of any particular portfolio or security. An investment cannot be made directly in an index.

## What you need to know:

- Market corrections are a normal part of the market cycle, and historically the market has always recovered from declines.
- Consider the powerful influence of time when investing. The longer you're in the market, the probability of positive returns has historically increased.
- Keeping a long-term focus can help you manage short-term volatility and benefit from the market's historically upward growth.
- Careful diversification of your portfolio is designed to cushion the blow of market retreats.

## Over time, the stock market has historically gone up

Market turmoil is not new. And yet, over time, the market has marched on. Despite times of war, national crises, recessions, pandemics and natural disasters, over the long term, investors who have been patient and stayed in the market have been rewarded. The U.S. stock market has historically produced a distinctively upward trend over the long term.




Source: Morningstar. The U.S. stock market as represented by the Ibbotson SBBI US Large Stock index. Growth is shown on a logarithmic scale to more clearly highlight growth through history.

## What you need to know:

- Your investment program is designed for a specific time horizon, and time is the best way to smooth out market volatility.
- From 1975-2019, the S&P 500 Index has experienced losses in only 10 out of 45 years.[1]
- The longer you're in the market, the probability of positive returns has historically increased.
- Keeping a long-term focus can help you cope with short-term volatility and benefits from the market's historically upward growth.

[1] S&P 500 Historical Annual Returns, Macrotrends, 6/15/20 [https://www.macrotrends.net/2526/sp-500-historical-annual-returns]

## It’s better to be in the market than on the sidelines

Studies have shown that investors who panic and flee to cash after a downturn run the risk of missing periods of the most positive returns, and consequently negatively impact their overall investment strategy. Indeed, missing just a few days in the market can seriously hurt performance.

While sitting on the sidelines, waiting for just the right time to invest, some of the market’s best single-day performance can slip by. The chart below shows what would have happened to investment returns for investors who missed the best of the market’s trading days over the past 20 years.

### Missing the best days of the market over the past 20 years
### Returns of the S&P 500 Index

Performance of a $10,000 investment between (Jan 3, 2000 – December 31, 2019)

Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2019.

## What you need to know:

- Historically, most of the biggest stock market gains occurred during very brief periods that are impossible to predict. That’s why it’s important to stay invested.
- By bailing out of the market during a market correction, you may be turning paper losses into real losses.
- History has proven time and time again that investors who are willing to wait out short-term volatility have been rewarded over the long term.
- If you sell and move to the sidelines to wait out market volatility, you risk missing any subsequent rebound, which has historically been fast and robust.
- Being out of the market, as measured by the S&P 500 Index, for just the 10 best days over the past 20 years would have reduced returns by more than 50%. Being out of the market for the best 60 days would have cost an investor nearly 140% of the potential returns over the period.
- Many of the best days in the market come right after the worst days: According to a JP Morgan Asset Management study, from January 3, 2000 to April 19, 2020, six of the seven best days occurred after the worst day.[2]

[2] “Impact of Being Out of the Market,” JP Morgan Asset management, 5/6/20, [https://am.jpmorgan.com/us/en/asset-management/gim/adv/impact-of-being-out-of-the-market]

## Market corrections may create opportunities to buy

Investors are often faced with three options during market corrections: sell, hold or hold and buy more. Buying stocks during a temporary market correction may enable an investor to add to a position that will benefit in a future recovery.

### Opportunities to buy?
### How these strategies have compared in historical down markets as defined by the S&P 500 Index

| Historical market crisis | Sold at the bottom | Did nothing *(hold)* *Recovered in:* | Added investment of equal amount *Recovered in:* | Recovery from market bottom one year later |
|---|---|---|---|---|
| Great Depression (1929-1936) | Lost 78% | 52 months | 2 months | +163% |
| World War II (1939-1946) | Lost 29% | 9 months | 5 months | +61% |
| Oil Crisis (1972-1976) | Lost 43% | 21 months | 5 months | +38% |
| 1987 Crash (Sept-Nov) | Lost 29% | 13 months | 1 month | +23% |
| Gulf War Crisis (1990-1991) | Lost 13% | 3 months | 1 month | +34% |
| Great Recession (2008-2009) | Lost 46% | 24 months | 5 months | +54% |

Source: Morningstar, 2018 Fundamentals for Investors. Data assumes an initial investment was made at the beginning of the year of when the event took place. Hold-and-buy-more strategy assumes that a portfolio added the same amount as originally invested at the market bottom. Past performance is no guarantee of future results. This table is for illustrative purposes only and is not representative of the future performance of any particular portfolio, security or strategy. Results shown reflect the reinvestment of dividends.

## What you need to know:

- Historically, the average recovery time from market pullbacks has meant that market declines do not have to undermine a well-diversified portfolio.
- Even in extreme market conditions, as we have occasionally seen historically, selling at the bottom of a downturn is never a good idea.
- Waiting out a market downturn has historically rewarded investors, while selectively adding to a position, may make sense and may help the portfolio recover faster.
- If you sell at the bottom, you risk missing any subsequent rebound—which has historically been fast and robust.
- Depending on market conditions, a market decline may even signal an attractive buying opportunity.

## We're here to help

We understand that market volatility can cause concern. You may be wondering if it's time to sell or make a change to your portfolio.

It's important to remember, that together, we've already done the prudent planning. You have a carefully constructed and fully integrated financial program that reflects your needs and risk comfort zone. Unless your goals have changed, or your tolerance for risk, it's likely that you should remain committed to your plan. But we're more than happy to meet with you and take another look.

Our goal is to keep you informed and remain proactive on your behalf and on behalf of your financial program. We welcome your questions and feedback. Please contact your financial advisor with any questions or concerns about your financial program, or to schedule a meeting to review your current plan.

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