How do long-term investors fare?

Investment Strategy Team

It can sometimes be difficult for long-term investors to stay the course during tough periods of market volatility and uncertainty. You may decide that a more volatile environment requires a more active, nimble strategy. Others may flee to what they believe are safe investments. However, we believe following a long-term investing strategy is a more strategic approach and may perform better than more nimble efforts.

Overcoming the roadblocks

It's no secret that U.S. stocks punished investors in the early years of the 21st century. The bursting of two bubbles (technology stocks and housing), the Sept. 11 terrorist attack, three bear markets, a global pandemic and three recessions all resulted in sharp stock market declines. Even patient long-term investors began to wonder whether times were different. But as seen in the table on Page 2, stocks have rebounded five years after each sell-off.

Following the severe bear market and Great Recession in 2008, many naysayers claimed stocks would never rebound. But the S&P 500 rose above its previous peak in the spring of 2013. Stocks recovered their ground and rose, just as they have after past market declines.

Why nimble strategies are flawed

1. Timing markets is difficult.

Some have concluded that frequent and sharp stock market moves, a series of bubbles, fast trading and heightened uncertainty favor nimble investors who can dodge multiple risks. But even nimble investors are likely to misstep. In reality, as the risks have expanded, the chances of successfully avoiding them have plunged.

2. You can't completely avoid risks.

Others have reacted to a higher-risk environment by reducing their equity allocation or avoiding stocks altogether. But letting your emotions drive large shifts in your portfolio allocations could lead to a portfolio that is not aligned with your financial goals.

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What we've overcome	Date	Dow average annualized total return periods after events' dates			
		1 year	3 years	5 years	As of 1/15/2024
Tech bubble bursts	3/11/2000	8.8%	-7.2%	3.7%	8.2%
Sept. 11 attacks	9/11/2001	-8.9%	4.6%	5.8%	8.9%
Enron collapses	12/12/2001	-11.8%	4.4%	6.8%	8.8%
Iraq war begins	3/19/2003	27.0%	13.7%	10.6%	10.2%
Hurricane Katrina	8/29/2005	11.9%	6.0%	2.2%	9.9%
Bear Stearns collapses	3/17/2008	-36.0%	2.4%	6.9%	10.2%
Lehman Brothers collapses	9/15/2008	-12.2%	3.0%	9.2%	10.8%
Unemployment rate peaks at 10%	10/1/2009	14.5%	14.6%	14.5%	12.6%
Japanese earthquake (tsunami & nuclear worries)	3/11/2011	10.7%	13.8%	10.3%	11.9%
Downgrade of U.S. debt	8/5/2011	18.1%	15.9%	13.1%	12.7%
Coronavirus pandemic	2/12/2020	9.9%	7.1%	?	8.8%
Average		**2.9%**	**7.1%**	**8.3%**	**10.3%**

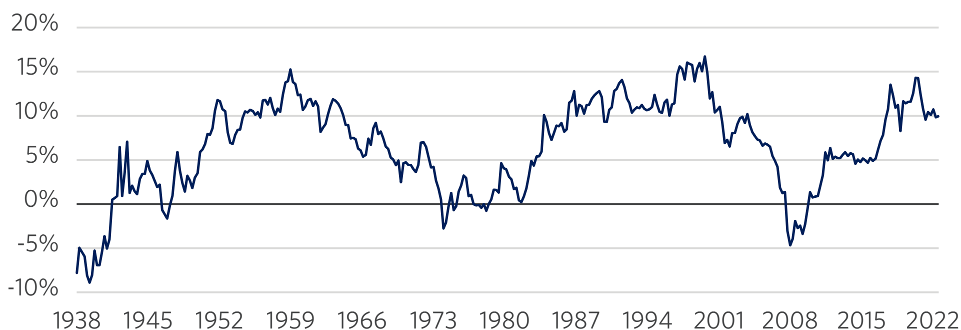
Source: Morningstar Direct, 1/15/2024. Past performance is not a guarantee of future results. The Dow Jones Industrial Average is an unmanaged index and is not available for direct investment.

Are you better off than you were a decade ago?

While presidential election campaigns may ask whether you're better off than you were four years ago, long-term investors tend to look at decades of returns. It's rare for stocks to lose ground over a decade. Historically, average 10-year stock returns have been greater than 4% more than 70% of the time.

While disappointing decades are rare, they do happen. But when rough decades have occurred in the past, they've been followed by decades of above-average returns, as the following chart shows. No one can predict what may happen to the markets, but with history as a guide, we believe maintaining a disciplined approach to investing can help keep you on track to achieving your financial goals.

S&P 500: 10-year rolling period annualized performance



Source: Morningstar Direct, 1/15/2024. Past performance is not a guarantee of future results. The S&P 500 Index is unmanaged and is not available for direct investment.

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Stocks aren't enough

You probably know it's best to own a combination of stocks, bonds and cash in specific proportions, often referred to as your asset allocation, tailored to your specific goals.

Since bond prices usually move in the opposite direction from stock prices, they can help reduce the volatility of your portfolio. That's why we think rebalancing is so important today. Rebalancing your portfolio to the appropriate mix of stocks and bonds can help ensure your asset allocation is aligned with your goals.

Selecting the appropriate mix of investments and staying invested during stock market downturns are crucial. Investors who sold when stocks fell — even if they decided to reinvest at a later date — rarely regained the ground lost compared with those who stayed invested.

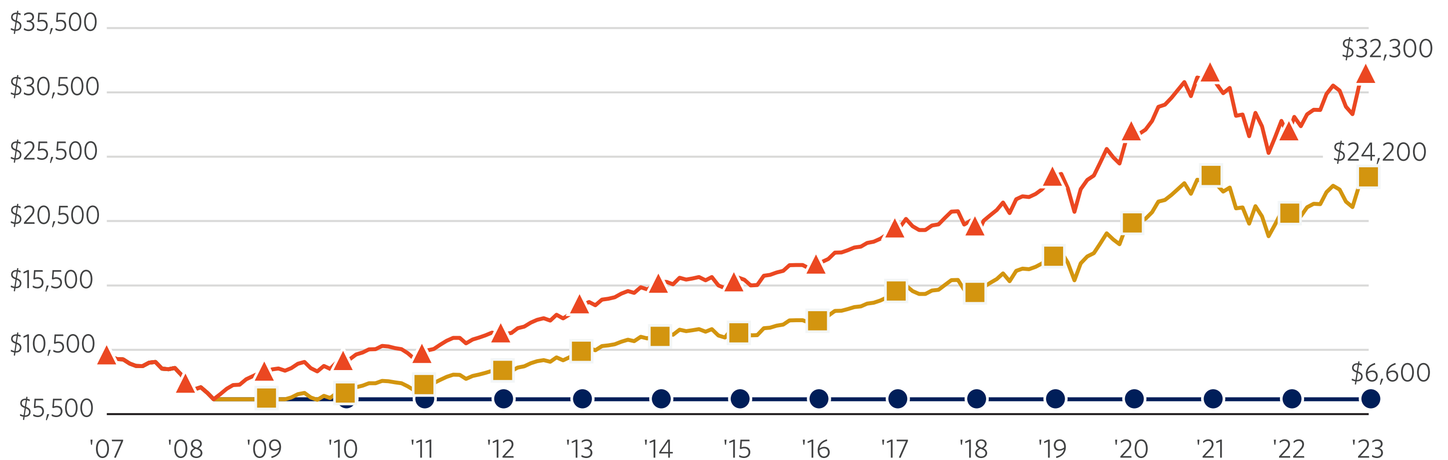
Although equity returns were meager beginning in the early 2000s, fixed-income returns were among their highest in years. That's why a portfolio with 65% in equities and 35% in fixed income declined less than an all-equity portfolio in 2008. In addition, that portfolio didn't have any negative 10-year returns, assuming reinvestments and annual rebalancing.*

*Source: Morningstar Direct, as of 1/15/2024. 10-year returns calculated from 1/1/1980 – 12/31/2023.

Past performance is not a guarantee of what will happen in the future.

$10,000 invested at 2007 market peak (portfolio of 65% stocks and 35% bonds)

- Liquidate and never reinvest
- Liquidate and reinvest 1 year later
- Stay invested



Source: Morningstar Direct, 1/15/2024. Stocks represented by the S&P 500 Total Return Index. Bonds represented by the Bloomberg US Aggregate Bond Total Return Index. Market indexes are unmanaged and not available for direct investment. Portfolio rebalanced annually. Past performance does not guarantee future results. Performance is gross of fees. If a fee were charged, the ending value would be lower. Figures rounded to the nearest $100.

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4 lessons for staying on course

1. Review your portfolio regularly.

It's important to review your investments regularly and rebalance your portfolio when appropriate. Staying invested doesn't mean being frozen in place. Regular portfolio maintenance keeps your investments from veering off course. It also gives you the opportunity to keep your portfolio aligned with your long-term financial goals.

2. Diversify your portfolio among quality investments.

Select an appropriate mix of quality investments rather than guessing which ones you think will perform the best. You should include international equity investments as well as domestic large-, mid- and small-cap stocks. And consider adding high-yield bonds, as well as investment-grade bonds, to improve the diversification of your fixed-income portfolio.[1]

3. Avoid owning too much of a single investment.

On a related note, don't try to guess which individual investments will perform best. Avoid overconcentration, which results in taking too much risk in a few individual stocks or bonds. Diversifying your equity and fixed-income investments can help reduce your portfolio's volatility.

4. Stay invested.

Prepare to stay invested as stocks become more volatile. Unless your circumstances have changed, sticking with your goal-oriented investment strategy is one of the most important lessons to hold onto because those who exit for the sidelines usually fail to reinvest. As we all know, you have to be invested to participate when stock prices rise.

Using a long-term, diversified approach may seem like a simple strategy, but it's not always easy to execute. It means staying invested when it feels like you should sell and doing nothing exactly when you most want to make changes. While some may criticize a long-term approach as unsophisticated, it's a strategy that typically outperforms more nimble efforts.[2] As a result, it's much more strategic than you may realize.

Talk with your Edward Jones financial advisor to make sure your strategy stays on track to meet your long-term financial goals.

1 Investing in equities involves risks. The value of your shares will fluctuate, and you may lose principal. Small- and mid-cap stocks tend to be more volatile than large-company stocks. Special risks are inherent in international investing, including those related to currency fluctuations and foreign political and economic events. Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity. High-yield bonds are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds.

2 Source: "Quantitative Analysis of Investor Behavior, 2023," DALBAR, Inc. Annualized return for the past 30 years ending 12/31/2022. This study was conducted by an independent third party, DALBAR, Inc. A research firm specializing in financial services, DALBAR is not associated with Edward Jones.

Past performance is not a guarantee of future results.

Diversification does not guarantee a profit or protect against loss in a declining market. You should make investment decisions based on your unique objectives, risk tolerance and financial circumstances.

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