

Understanding Market Ups and Downs



Prudential Retirement

Did you know...

Investing \$1 in the S&P 500 Index 83 years ago would have yielded

\$71.21 today.

But, if you had tried to time the market, pulling money in and out, and missed just 10 of the market's best days—10 days out of 30,295 days (83 years)—your investment would only have grown to **\$23.89**.

*(Timeframe: 12/31/1927- 12/31/2010;
Source: "The Tale of 10 Days,"
Invesco, 2011)*

Historically, the stock market (S&P 500 Index) is up about twice as often as it is down (two years up for every one year down). Trouble is, it's impossible to know in advance which way it's going to go.*

If there's anything constant about the financial markets, it's that they change every day. Sometimes they're up. Other times they're down. And when those movements are dramatic (more about that in a moment), it's often called volatility.

Truth is, many investors like volatility when it's going up. It's just that when the market is going down—very down—that volatility can make even the most seasoned investor grow weak in the knees.

What causes markets to ebb and flow? Many things. And financial experts don't always agree on what those things are, or their influence on market moves.

Low/declining inflation, rising corporate profits, high/stable employment and an "easy" Federal Reserve money policy can all contribute to a rising market.

And, naturally, the opposite is true. High inflation, high interest rates, flagging corporate profits, high unemployment and a "tight" lending policy can all contribute to a declining market.

A 5% fluctuation throughout the years is fairly common. A 10% decline, after a sustained surge, is called a "correction."¹ A 20% or more decline is called a "bear" market.² And that's being polite!

Because no one knows when a decline will occur, it's important to take a long view of investing, particularly when investing for retirement.

*Source: NYU Stern School of Business, 2011

¹ Source: http://useconomy.about.com/od/glossary/g/Market_Correcti.htm

² Source: <http://beginnersinvest.about.com/cs/marketanalysis/a/031701a.htm>





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The first decade of the 21st Century was unusually volatile, both the good and bad kind. Four out of 10 years were negative, some very negative indeed. For example, the S&P 500 Index finished 2008 down a crushing negative 36.58%. But the very next year, the S&P 500 Index was up 25.92%. (*Source: NYU Stern School of Business, 2011*)

Here's another way to look at long-term investing: For the 10 years ending 12/31/2010, the venerable index returned an average annual 3.54%. But for the 40 years ending 12/31/2010, the S&P 500 Index returned an annualized 11.10%. (*Source: NYU Stern School of Business, 2011*)

If only we could know in advance which years will be up, and which down. Since we can't, the prudent approach calls for:

- Investing in a mix of equities, including small company, large company, U.S. and international, so that retirement planning success is not pinned on the performance of any single asset class.
- Spreading your retirement investment among various types of assets, including equities (stocks), fixed-income (bonds) and possibly conservative stable value options.
- Staying focused on the long term. Investing for retirement is a marathon, not a sprint. Over the long term, any single down day—or even down year—may have less impact than you realize.

Keep in mind that application of asset allocation and diversification concepts does not assure a profit or protect against loss in a declining market. **It is possible to lose money by investing in securities.**

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