

# RIDING OUT MARKET UPS AND DOWNS



The one certainty of investing is that your portfolio will experience volatility. Further, volatility can trigger emotional responses that may cause investors to make irrational decisions that could lead to missed opportunities.

Prudent investors stay the course, with the understanding that investment success is not just a matter of how well you do in up markets but also how well you weather the downside.

## STAY CALM

The truth is that market ups and downs are normal.

In fact, in any given calendar year, the average drawdown (peak to trough decline) of the S&P 500® Index historically has been nearly 14%.

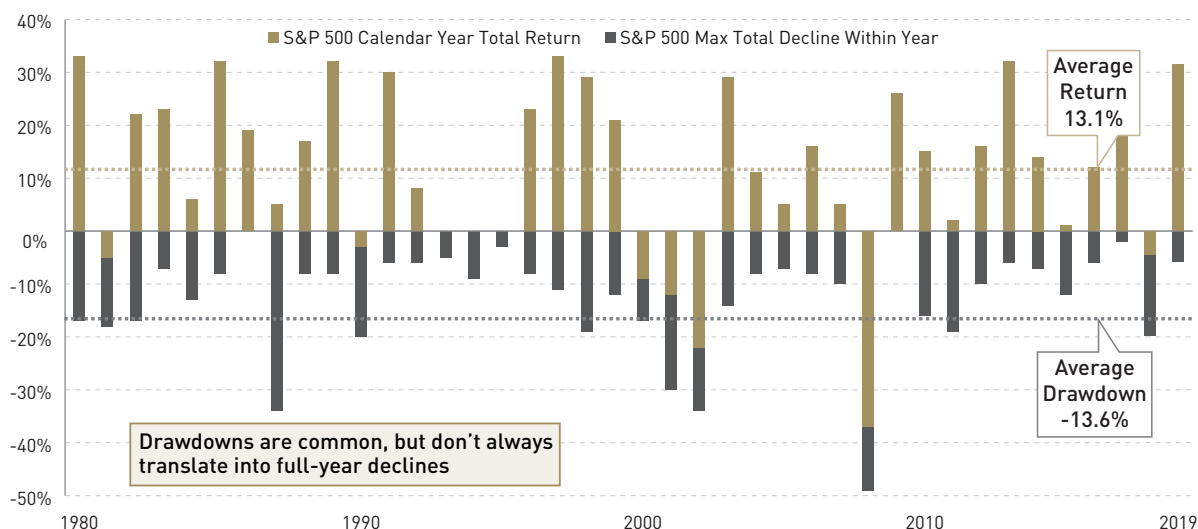
Yet, despite the intra-year volatility, the index has tended to finish most years higher than it started. Since 1980, for example:

- The S&P 500 has delivered an average calendar-year return of more than 13%, including positive returns in many of the same years that large drawdowns occurred.
- The index also has delivered positive returns 82% of the time.
- In 40% of the calendar years, the index has returned more than 20%.

Though such favorable outcomes can never be guaranteed, it is clear that being calm and patient during periods of volatility historically has rewarded investors.

## DRAWDOWNS ARE COMMON, BUT THEY DON'T ALWAYS TRANSLATE INTO FULL-YEAR DECLINES

S&P 500 annual total returns versus maximum total decline, as of December 31, 2019



Source: Morningstar.

Note: The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is not a reliable indicator or guarantee of future results.**

This material is provided for general educational purposes only, is not intended to provide legal, tax, or investment advice, and does not account for individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance. Consult with your financial advisor before making any investment decisions.

## STAY IN

An investor who exited the market and subsequently missed just 10 of the best-performing days in the past 20 years would have lost out on more than half of the gains. Given the difficulty of market-timing, a far better course would have been to stay in, with the knowledge that volatility is normal and that missed upside can dramatically cut into long-term returns.

### MISSING THE BEST-PERFORMING DAYS<sup>1</sup> OF THE MARKET CAN HAVE A SIGNIFICANT IMPACT ON YOUR PORTFOLIO

S&P 500 annualized returns, January 1, 1999 – December 31, 2019

FOR THE 20-YEAR PERIOD 01/01/1999 - 12/31/2019	ANNUALIZED RETURN <sup>2</sup>	\$10K INVESTED <sup>3</sup>
All days during period	9.7%	\$86,280
Missed: 10 best days	6.7%	\$43,059
Missed: 20 best days	4.7%	\$26,831
Missed: 30 best days	3.0%	\$17,725

Source: Morningstar. Standard & Poor's.

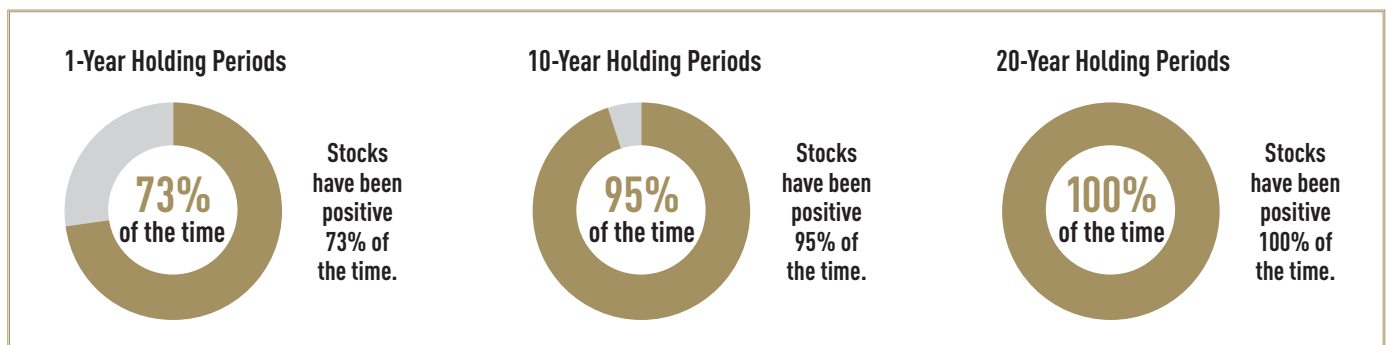
<sup>1</sup>The "best" days to be invested are defined as the days on which the S&P 500 Index delivered its highest returns for the given periods based on historical data. <sup>2</sup>Returns are measured based on the S&P 500 Index. <sup>3</sup>This illustration depicts the value of a hypothetical \$10,000 investment in the S&P 500 Index from January 1, 1999, through December 31, 2018. Note: The historical data are illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is not a reliable indicator or guarantee of future results.**

## STAY THE COURSE

For long-term equity investors, the most powerful factor is time: historically speaking, an investor's time horizon is directly correlated with the likelihood that a portfolio will experience positive returns. For these long-term investors, staying the course is the most critical consideration when trying to build wealth and meet their investment objectives.

### THE LONGER YOU STAY IN THE MARKET, THE GREATER THE POTENTIAL FOR A POSITIVE OUTCOME

S&P 500 Index returns in calendar-year periods, 1927–2019



Source: Morningstar.

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