

Hanging tough in a difficult market

The market drops 700 points in one day. The newscasters call it “the biggest point drop in history.” How will it affect your retirement portfolio?

Of course, you know that the worst time to sell an investment is after a market drop. News like this only fuels fear and anxiety — it does nothing to advance your investment portfolio.

All the investment techniques you learned — asset allocation, diversification, dollar-cost averaging — made perfect sense while the markets were chugging along. But do they still hold true in these turbulent times?

More than ever

While a volatile stock market may make you nauseous, maintaining a diversified portfolio — one that focuses on long-term goals — is probably one of the best things you can do.

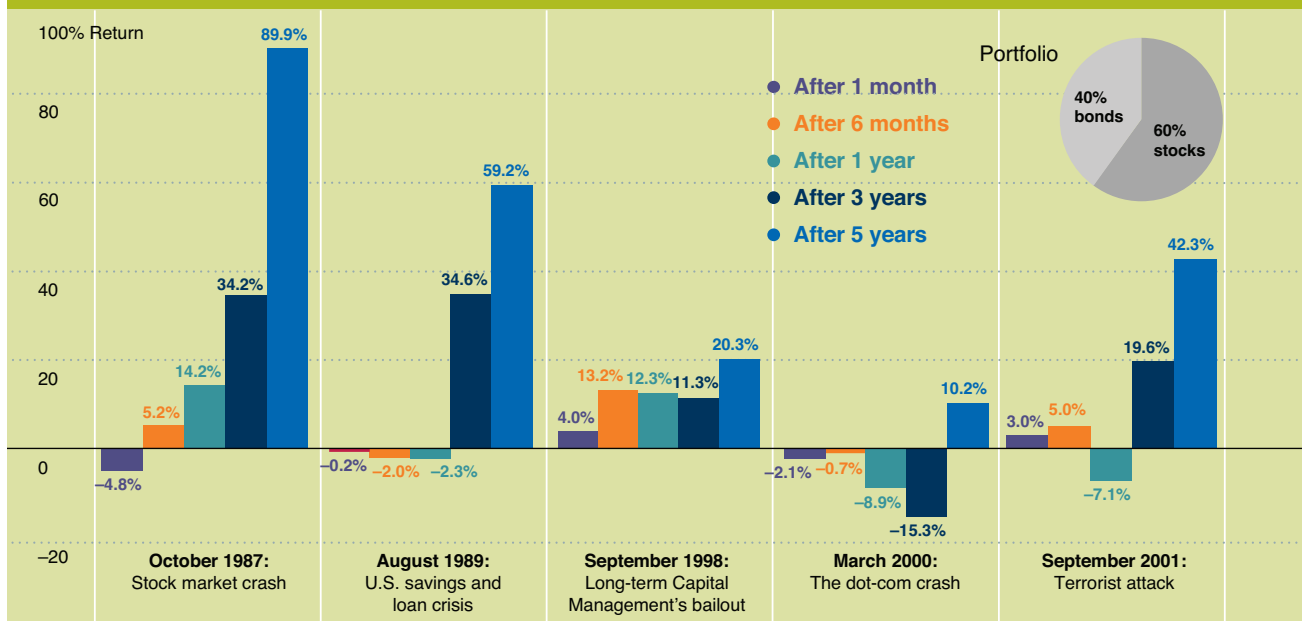
What you need to know now

The key to weathering market volatility is good, solid preparation. If you embrace basic investment principles and strategies, you’ll be less likely to make big mistakes — like selling an investment when its price is at rock-bottom.

While volatile markets are difficult to endure, well-prepared investors realize that market declines are normal. And although some investors had never experienced a market downturn until earlier this decade, most are aware of some of the more notorious drops. In October 1987, the Dow Jones Industrial Average, the most widely used indicator of the overall condition of the stock market, lost 508 points — or 23 percent — in one day, which is not-so-fondly referred to as “Black Monday.” The markets, of course, went on to experience record highs in the years shortly thereafter.


U.S. Market Recovery After Financial Crises

Cumulative return of balanced portfolio after various events



Past performance is no guarantee of future results. Returns reflect the percentage change in the index level from the end of the month in which the event occurred to one month, six months, one year, three years and five years after. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Stocks in this example are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds are represented by the 20-year U.S. government bond. Calculations assume monthly data. The data assumes reinvestment of all income and does not account for taxes or transaction costs. For the U.S. savings and loan crisis, August 1989 was chosen because that was the month the Financial Institutions Reform, Recovery and Enforcement Act of 1989 was signed into law. For Long-term Capital Management, September 1998 was chosen because that was the month the hedge fund was bailed out by various financial institutions. © 2008 Morningstar, Inc. All rights reserved. 9/18/08





Realistic investors don't expect that markets will always go up, but they do understand that historically, stocks have outperformed bonds and cash equivalents and have outpaced inflation.¹

Market downturns are the perfect time to stick to your investment plan. The strategies you've employed all along may continue to be effective during declines.

Reevaluate your investment strategy. You might find market downturns a good time to ask yourself a few questions. Am I comfortable with the level of risk I have taken on, or are the market swings more than I can handle? Did my portfolio become overweighted in any one area, causing more volatility than I'm comfortable with? If daily market activity keeps you from sleeping at night, it might be time to review your investment objectives. But if your long-term objectives are still intact, hanging tight might be the best course of action.

Think about buying low. Declining markets often pose an opportunity many investors don't consider — purchasing more shares at lower prices. Let's say you bought shares of a mutual fund last year when prices were high. If you purchased additional shares when the price was dropping, you purchased those shares at a lower price. And, if you continue to purchase shares on a regular basis, you could help lower the average cost of your purchases. Although the

markets may look grim at any given point in time, many investment professionals believe that stocks are “on sale” during significant market declines, and look upon them as good times to buy.

Don't forget to diversify. If there's a lesson to be learned from market downturns, it's that diversification is one of the most important investment strategies you can employ.² Nobody can predict when or where the markets will turn. That's why it's important to spread your assets among various investment classes. Anyone who invested heavily in technology stocks in the '90s without understanding the risks can appreciate that. The most important thing to remember — no matter how high or low the markets drift — is to be sure that your investment strategy is in keeping with your goals.

By exposing yourself to different segments of the market, you can help lessen the risk should one particular market segment or asset class show weakness.

There's one thing to remember during a difficult market: Don't get caught up in the madness. Instead, continue to focus on maintaining your sound investment plan. If you've set goals and developed a strategy, you owe it to yourself to keep your plan on track — especially during the market's peaks and valleys.

¹ Past performance is no guarantee of future results. Investments are subject to market risk and fluctuate in value.

² Diversification does not ensure a profit or protect against loss in a declining market.

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