Taking a Time-out

Understanding the key pitfalls investors make, and how to avoid them

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Too often our emotions can be the biggest barrier to our investment success. In these situations, it's important to take a "time-out" and remember why you're investing – your retirement, your child's education, your legacy. A short-term market decline doesn't change these long-term goals.

A time-out can help you review your goals and objectives, recognize behaviors that could cause trouble and avoid making emotional investment decisions.

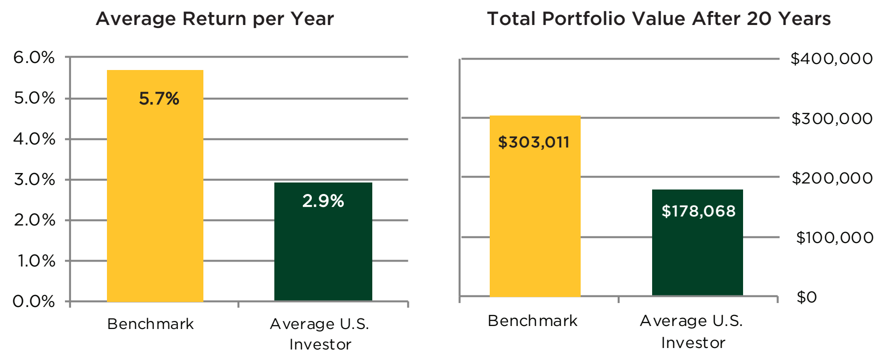
The Result of Our Investing Behavior

Why is it so important to be on your best investing behavior? Poor investing behavior can lead to poor diversification, chasing performance, and moving into and out of the markets (and often at the wrong time). The typical result of these behaviors is not a surprise – poor long-term performance, which could lead to the biggest risk of all: not reaching your long-term financial goals.

The consequences may be even more dramatic than you think. For example, the average annual return for a balanced portfolio (65% equity and 35% fixed income) over the past 20 years was 5.7%. However, the average U.S. investor received a 2.9% return because of his or her investing behavior. But with the power of compounding, the difference wasn't simply 2.9% a year; it could have been $125,000 over that 20-year time frame.

When you feel your emotions beginning to get the better of you, take a time-out and work with your financial advisor to review your goals before making what could be an emotional investing decision. Your portfolio, and your future self, will thank you.

How Investing Behavior Can Lead to Poor Performance



Source: DALBAR, QAIB 2020; Edward Jones estimates. Annualized return for the past 20 years ending 12/31/2018. Assumes initial investment of $65,000 in equity and $35,000 in fixed income, rebalanced annually. The Equity benchmark is represented by the S&P 500. The Fixed Income benchmark is represented by the Barclays Aggregate Bond Index. Returns do not subtract commissions or fees. 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 no guarantee of future results. Rounded to nearest $5,000.

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MAKING SENSE OF INVESTING

Investing Behavior:

Heading to (or Staying on) the Sidelines

Whether it's the economy, the national deficit or market fluctuations, there will always be headlines that may distract you from focusing on your long-term goals. Trying to avoid potential stock market declines may lead to the following bad behaviors:

Trying to Time the Market

Some may try to time the market or sell to avoid additional declines. But to time the market successfully, you must get two decisions right: when to get out, and when to get back in. Getting one right is difficult; two right is nearly impossible.

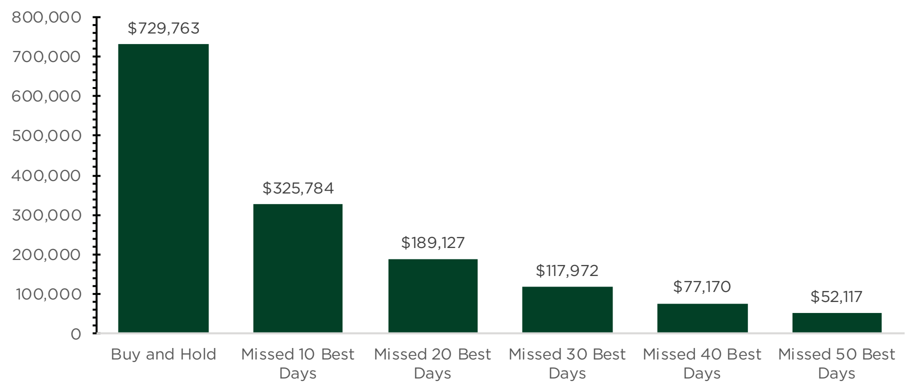
Holding Too Much in Cash

Others may hold too much in cash, thinking they are avoiding risk. But this could actually increase the risk of not having enough growth in their portfolios to meet their goals or offset inflation.

Not staying fully invested or jumping in and out of the stock market can seriously affect performance, since many investors often get out after declines and then miss the positive moves. The effects of missing the best days can be substantial, as shown in the chart below.

Missing the Best Days

Value of $10,000 Investment in the S&P 500 in 1980



Source: Ned Davis Research, Edward Jones calculations. 1/1/1980-4/9/2020. These calculations assume the best days, as defined as the top percentage gains for the S&P 500, including dividends, for the designated period. These calculations do not include any commissions or transaction fees that an investor may have incurred. If these fees were included, it would have a negative impact on the return. The S&P 500 is an unmanaged index and is not meant to depict an actual investment. Past performance is no guarantee of future results. Dividends can be increased, decreased or eliminated at any point without notice.

How to Avoid This Behavior

Avoid the Headlines

When negative events occur, the media often use extreme language or highlight low periods in the past for dramatic effect. However, the 1979 cover below actually preceded one of the strongest equity markets in history. Focus on your long-term goals and not the ever-changing headlines, and remember we've successfully navigated tough periods before.

Know Yourself

Talk with your financial advisor to better understand your attitudes toward risk (and how you may react to specific events). By knowing how you may react in advance, you can be better prepared when the inevitable short-term declines occur.

Understand the Risks of Not Investing

The biggest risk you may face is not reaching your long-term goals. Assuming a modest 3% inflation rate, prices will double during a normal 25-year retirement period. Look to growth investments to help keep pace with inflation.*

*Investing in equities involves risk, the value of your shares will fluctuate and you may lose principal.

Investing Behavior:

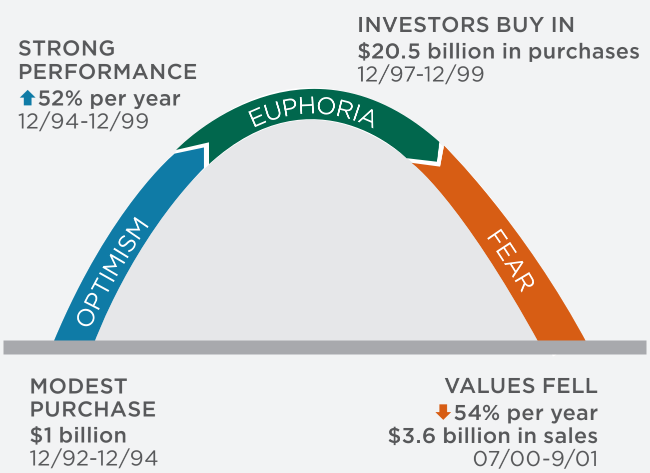
Chasing Performance

When the media hype the latest "hot" investment or highlight "dramatic" declines in the market, we are often tempted to chase the winners and sell the losers. But this emotional response can lead to buying investments at market peaks and selling them at the bottoms – a recipe for underperformance.

Chasing “Winners” vs. Selling “Losers”

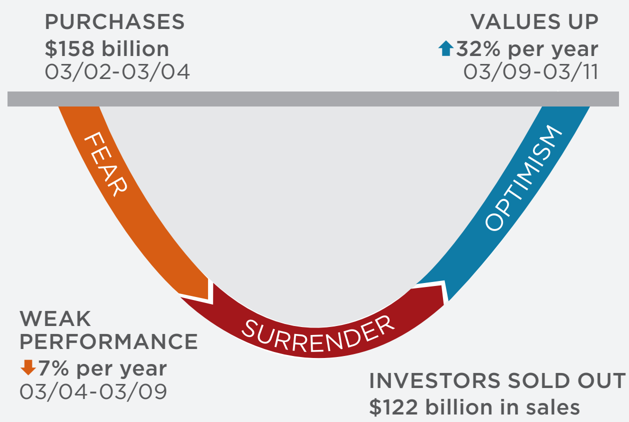
Technology: 1992–2001

(Fund flows soared into technology mutual funds after strong performance – then these areas underperformed)



U.S. Stock Market: 2002–2011

(Investors sold U.S. stock mutual funds after weak performance – then U.S. stocks rebounded)



Source: Morningstar. Past performance is not a guarantee of future results.

How to Avoid This Behavior

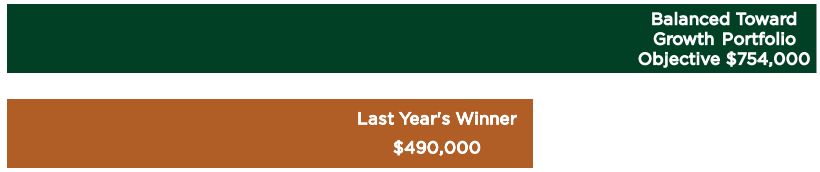
Stay Diversified

Instead of trying to find the next hot investment and chasing performance, it’s important to have a broad asset allocation and remain diversified. This helps ensure you have different types of assets and investments – each of which may perform differently at different times. By chasing the leading asset class, portfolios not only end up with a lower return but also end up much less diversified than we would recommend. While diversification cannot guarantee a profit or protect against loss, it can help smooth out market ups and downs, potentially providing a better long-term experience.

The chart shows $25,000 invested each year into either a diversified portfolio (Balanced Toward Growth Portfolio Objective) or the last year’s best-performing asset class (winners).

Don’t Chase Performance

Data Range 1993-2019



Morningstar Direct; 1993–2019. Balanced Toward Growth Portfolio Objective consists of the following: Barclays Gbl Agg Ex U.S. Index (2%), Barclays U.S. Agg Bond Index (27%), Barclays U.S. HY 2% Issuer Cap Index (4%), Barclays U.S. Trsy Bellwethers 3Mon Index (2%), FTSE NAREIT All Equity REITs Index (4%), MSCI EAFE Index (13%), MSCI EM Index (4%), Russell 2000 Index (3%), Russell Mid Cap Index (7%), S&P 500 Index (30%), MSCI EAFE Small Cap Index (3%), S&P GSCI Index (1%). The portfolio shown is a hypothetical illustration. Investor performance will vary. All performance data assumes reinvestment of dividends. Past performance is no guarantee of future results. Investment indexes are unmanaged and are not available for direct investment.

Investing Behavior:

Focusing on the Short Term

It's important to focus on the long term, but day-to-day fluctuations can often get in the way, causing us to:

Fixate on a Certain Point in Time

Depending on the vantage point, the same situation may look very different. For example, some investors sold in 2008 because their portfolios had fallen from the all-time high value, even though their performance may still have been on track and well above where they initially began.

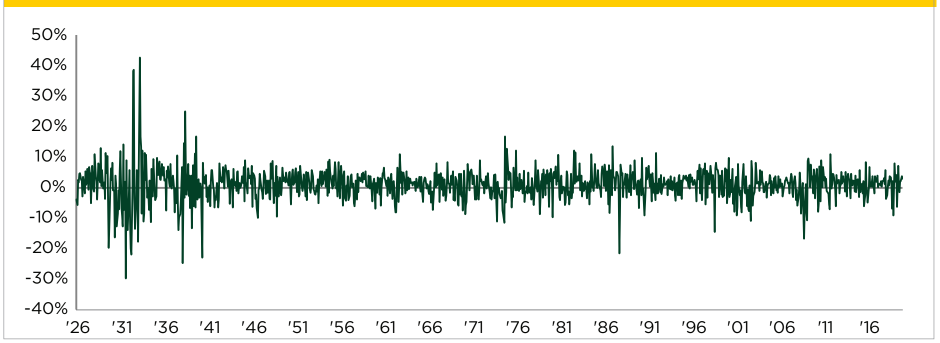
Base Decisions on How the Information Is Framed

Decisions can be influenced by how a situation is presented. For example: "Dow plummets 250 points OR Dow declines 1%."* Both describe the same situation, but the first sounds worse. With the Dow over 25,000, we should expect larger point moves, but how the media present market movements can lead investors to make emotional short-term decisions.

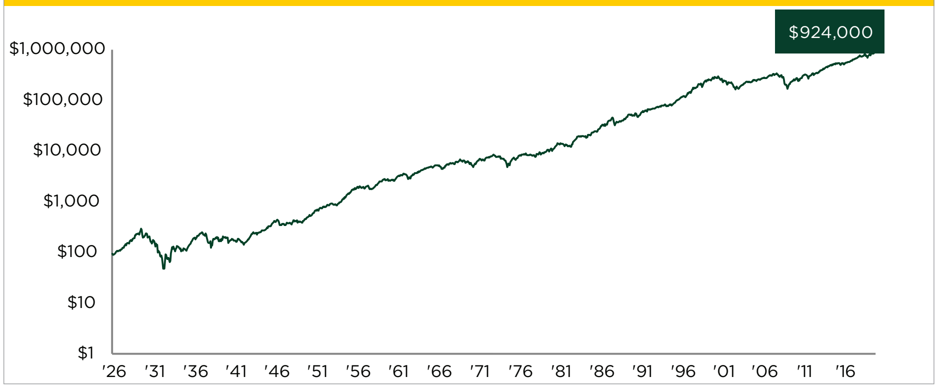
It all depends on your perspective, as highlighted below. The graphs show the same performance but a different perspective. The first graph shows monthly fluctuations in the S&P 500; the second shows the long-term performance – illustrating why it's important to keep a long-term focus.

A Monthly Perspective vs. a Long-term Perspective

S&P 500 Monthly Total Returns 1926-2019



Value of $100 Invested in the S&P 500 Total Return Index 1926-2019



Source: Morningstar Direct, 12/31/2019. Past performance does not guarantee future results. Calculations do not include commissions or transaction fees that an investor may have incurred, which would have a negative impact on investment results. Total return includes reinvested dividends. The long-term perspective graph assumes an initial investment of $100 on 1/1/1926. The S&P 500 is an unmanaged index and is not available for direct investment. Rounded to the nearest $5,000.

*Assumes a Dow value of 25,000.

How to Avoid This Behavior

Set Realistic Expectations and Focus on Your Goals

The stock market averages a **10% correction every year**. There have been **32 bear markets** and **32 recoveries** since 1900. Over a **25-year retirement**, you could experience **six to seven bear markets** on average.

So market declines, while unpleasant, are in fact normal. Measure your performance as progress toward your long-term goals, not in day-to-day fluctuations.

Understand the Purpose of Your Investments

In retirement, some investments are there for your income today. Others are there to help provide income many years from now. Each serves a critical role in ensuring your money lasts as long as you need it.

Near-term Income
Cash and Short-term Fixed-income Investments

Medium-term Income
Intermediate- and Longer-term Bonds and Fixed-income Investments

Long-term Income
Stocks and Growth Investments

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