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Keys to prevailing through stock market declines

During periods of volatility in the stock market, you may have doubts about your long-term investment strategy. Here are five tips to help you avoid common pitfalls and stay on track toward achieving your financial goals.

1. Declines have been common and temporary occurrences.

Problem: Declines can cause imprudent behavior by filling investors with dread and panic.

Solution: Realize that declines are inevitable and have not lasted forever.

History has shown that stock market declines are a natural part of investing. While declines have varied in intensity and frequency, they have been somewhat regular events.

It may also reassure you to know that the market has always recovered from declines. Although past results don't guarantee future results, remembering that downturns have been temporary may help assuage your fears.

"The market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people."

– Warren Buffett

The bottom line? Accept declines as a normal part of the investment cycle.

A history of market declines

Standard & Poor's 500 Composite Index (1951–2021)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency*	About three times per year	About once per year	About once every three years	About once every six years
Average length†	43 days	110 days	251 days	370 days
Last occurrence	October 2021	September 2020	March 2020	March 2020

* Assumes 50% recovery of lost value.

† Measures market high to market low.

Sources: Capital Group, RIMES, Standard & Poor's. As of 12/31/21.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

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2. Proper perspective can help you remain calm.

Problem: Studies show that people place too much emphasis on recent events and disregard long-term realities.

Solution: Even amid a market downturn, remember that stocks have rewarded investors over time.

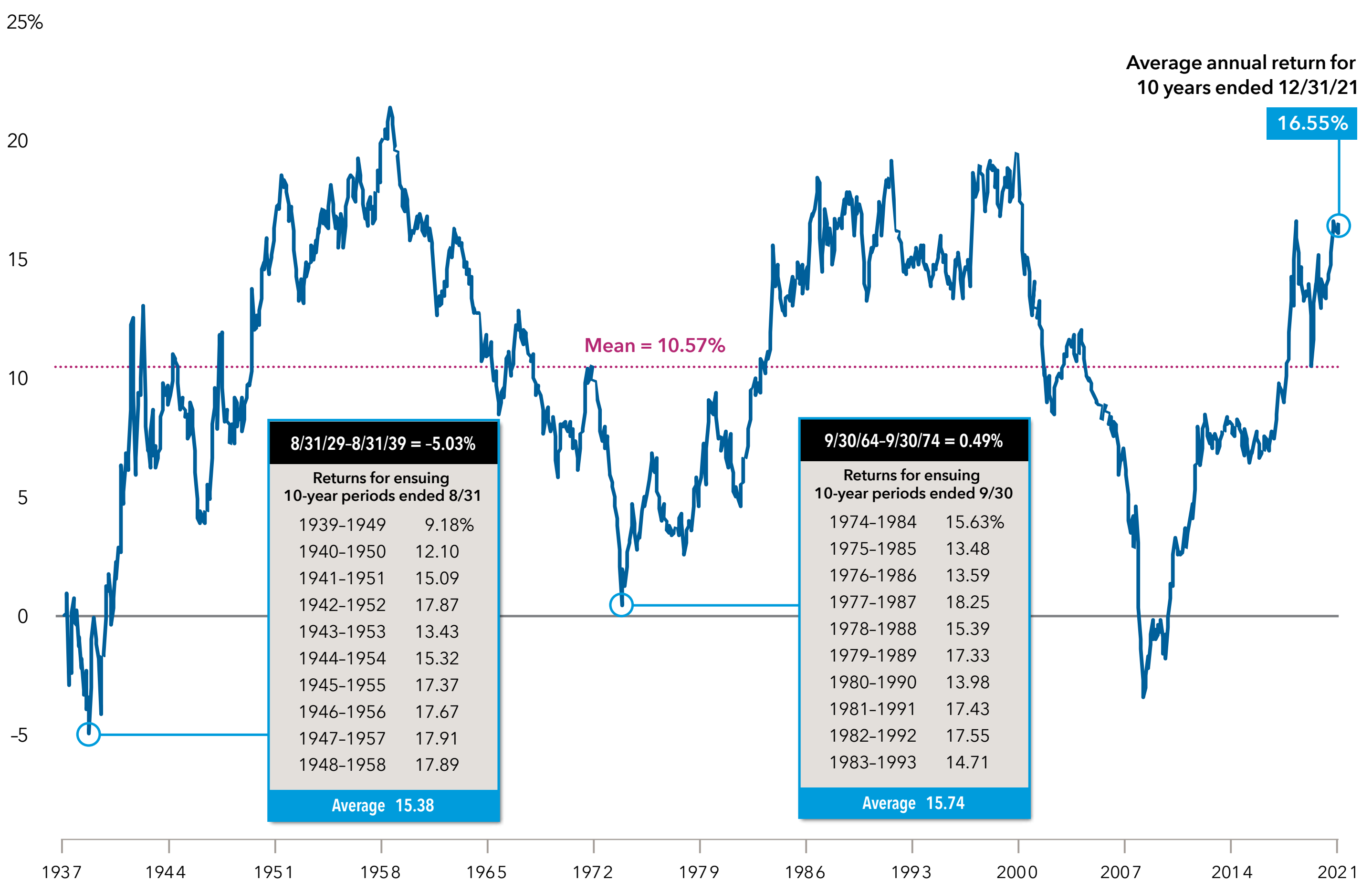
The stock market has a reassuring history of recoveries. After hitting lows in August 1939 and September 1974, the Standard & Poor's 500 Index bounced back strong, averaging annual total returns of more than 15% over the next 10 rolling 10-year periods in both cases.

Long-term investors have been rewarded. Even including downturns, the S&P 500's mean return over all rolling 10-year periods from 1937 to December 2021 was 10.57%.

The bottom line? **A long-term perspective can help you prevail through challenging times.**

S&P 500 rolling 10-year average annual total returns

December 31, 1937–December 31, 2021



8/31/29–8/31/39 = –5.03%	
Returns for ensuing 10-year periods ended 8/31	
1939–1949	9.18%
1940–1950	12.10
1941–1951	15.09
1942–1952	17.87
1943–1953	13.43
1944–1954	15.32
1945–1955	17.37
1946–1956	17.67
1947–1957	17.91
1948–1958	17.89
Average	15.38

9/30/64–9/30/74 = 0.49%	
Returns for ensuing 10-year periods ended 9/30	
1974–1984	15.63%
1975–1985	13.48
1976–1986	13.59
1977–1987	18.25
1978–1988	15.39
1979–1989	17.33
1980–1990	13.98
1981–1991	17.43
1982–1992	17.55
1983–1993	14.71
Average	15.74

Sources: Capital Group, Morningstar, RIMES, Standard & Poor's. As of 12/31/21.

Results are calculated on a monthly basis. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. Past results are not predictive of results in future periods.

The Standard & Poor's 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

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3. Don't try to time the market.

Problem: Research has shown that losses feel twice as bad as gains feel good.

Solution: Keep in mind that fleeing the market to reduce losses could mean losing out on gains when stocks recover.

The market has shown resilience. Every S&P 500 downturn of about 15% or more since the 1930s has been followed by a recovery.

Recoveries have been strong. Returns in the first year after the five biggest market declines since 1929 ranged from 36.16% to 137.60%, and averaged 70.95%. Over a longer term, the average value of an investment more than doubled over the five years after each market low.

Don't miss out on potential market rebounds. Although recoveries aren't guaranteed, taking your money out of the market during declines means that if you don't get back in at the right time, you'll miss the full benefit of market recoveries.

The bottom line? **Consider staying invested – and don't try to time the market.**

Five biggest market declines and subsequent five-year periods*

1929–2021

		9/7/29-6/1/32	3/6/37-4/28/42	1/11/73-10/3/74	3/24/00-10/9/02	10/9/07-3/9/09	Average
	Decline	-86.22%	-60.01%	-48.20%	-49.15%	-56.78%	
S&P 500 12-month returns† after low	1st yr.	137.60%	64.26%	44.43%	36.16%	72.29%	70.95%
	2nd yr.	0.52%	8.96	25.99	9.91	18.08	12.69
	3rd yr.	6.42%	31.08	-2.86	8.51	6.10	9.85
	4th yr.	56.68%	32.19	11.79	15.11	15.74	26.30
	5th yr.	16.52%	-19.89	12.82	18.06	23.65	10.23
	Five-year average annual total return	35.93%	19.96	17.39	17.15	25.30	23.15
	Value of a hypothetical $10,000 investment in the S&P 500 at the end of the five-year period	$46,401	$24,841	$22,293	$22,067	$30,890	$28,322

23 Positive periods

2 Negative periods

* Market downturns are based on the five largest declines in the S&P 500's value (excluding dividends and/or distributions) with 50% recovery after each decline.

† The return for each of the five years after a low is a 12-month return based on the date of the low. For example, the first year is the 12-month period from 3/9/09 to 3/9/10.

The percentage decline is based on the index value of the unmanaged S&P 500, excluding dividends and/or distributions. Each market decline reflects a period of more than 80 days with 100% recovery after each decline (except for a 77% recovery between 3/9/09 and 4/29/11). The average annual total returns and hypothetical investment results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or taxes. Investors cannot invest directly in an index. Past results are not predictive of results in future periods.

4. Capital Group, home of American Funds, has helped investors prevail through market declines.

Problem: Market indexes don't tell the whole story and can needlessly alarm investors.

Solution: Consider investing in funds run by investment managers who have proven long-term track records.

Certain skilled investment managers have superior long-term track records. American Funds is among those proven managers with a long history of success, stemming from our long-term perspective and our emphasis on producing results that are less volatile than the broad market.

Equity funds have beaten their Lipper peer indexes in 90% of 10-year periods and 99% of 20-year periods.* Fixed income funds have helped investors achieve diversification through attention to correlation between bonds and equities.† These periods include good times and bad.

The bottom line?	**Invest for the long term with an investment manager that has a proven track record of success – in downturns as well as in bull markets.**

5. Emotions can cloud your judgment.

Problem: Investors often make poor decisions when they let their emotions take over.

Solution: Stay focused on your long-term goals and carefully consider your options.

Have you heard the investment adage, "buy low, sell high"? Strong emotions during market swings can tempt you to do the opposite – buy high and sell low.

You may also feel that doing something – anything – during a downturn is better than doing nothing. Although inaction might seem counterintuitive, staying invested in the market could be the better choice.

The bottom line?	**Avoid making rash decisions based on emotions.**

Strategies to get through turbulent times

It's difficult to see the value of your investments fall. But during challenging times, try to keep some fundamental investing principles in mind:

Look beyond the headlines. Sensational news headlines are meant to grab your attention, but it can be dangerous to let the media influence your investment decisions. Ignore the noise and stay focused on your goals.

Don't forget history. Market declines are part of the economic cycle. Historically, recoveries have followed downturns.

Maintain a diversified portfolio. Different investments may go up and down at different times. Spreading your money over a variety of investment types and regions can help reduce volatility in your overall portfolio.

Don't try to time the market. No one knows the perfect times to get in and out of the market. Consider holding quality investments with the potential to rise in value over the long term.

Invest regularly, even when the market is falling. Instead of fearing down markets, think of them as opportunities to invest at lower prices.

Keep in touch with your financial professional. Your financial advisor can help you avoid making decisions that could jeopardize your long-term investment goals, which often remain unchanged during market declines.

* Based on Class F-2 share results for rolling calendar-year periods starting the first full calendar year after each fund's inception through December 31, 2021. Periods covered are the shorter of the fund's lifetime or since the comparable Lipper index inception date (except Capital Income Builder and SMALLCAP World Fund, for which the Lipper average was used). Expenses differ for each share class, so results will vary.

† Based on Class F-2 share results as of December 31, 2021. Thirteen of the 17 fixed income American Funds that have been in existence for the three-year period showed a three-year correlation below 0.3. Standard & Poor's 500 Index was used as an equity market proxy. Correlation based on monthly total returns. Correlation is a statistical measure of how two securities move in relation to each other. A correlation ranges from –1 to 1. A positive correlation close to 1 implies that as one security moves, either up or down, the other security will move in "lockstep," in the same direction. A negative correlation close to –1 indicates that the securities have moved in the opposite direction.

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