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Capital market insights

Conversation guide

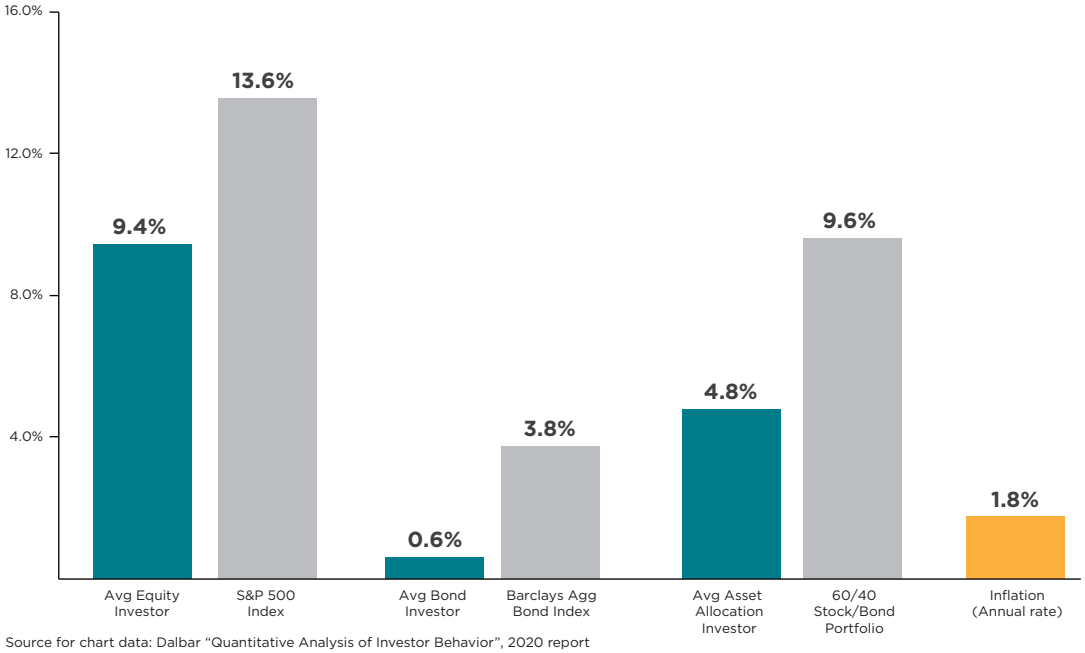
September 30, 2020

Emotional investors fall behind the market.

Often, the best reaction to market volatility is not reacting at all.

Emotional investors continue to underperform the market

Annualized returns, 2009-2019



Source for chart data: Dalbar "Quantitative Analysis of Investor Behavior", 2020 report

Equity markets have been remarkably resilient so far this year. Despite unprecedented uncertainty, the S&P 500® Index is positive for the year-to-date through September 25 and up by double-digits over the past 12 months. The 7% decline in September from the stock market's recent record highs has severely damaged investor confidence, with data on sentiment and fund flows collapsing.

In periods of stress and uncertainty, investors tend to want to "do something," which often leads to the panicked selling we saw in March, and occasionally the panicked buying we saw in certain segments of the market in August. A recent Fidelity Investment survey showed that 18% of investors sold all their equity holdings between March and May of this year. Nearly one-quarter of those sellers were above 65 years old.

A recent DALBAR survey shows the price emotional investors pay in lagging performance. Over the past 10 years (2009-2019), the average equity investor underperformed the S&P 500 by more than 4% per year, while the average bond investor underperformed the Barclays Aggregate Bond Index by more than 3%. (See chart above.) More to the point, the average bond investor couldn't even beat the rate of inflation during this time. The performance lag is largely due to the difficulty investors face when trying to time the market and the penalty they incur from trading on emotion. As the election draws near and its accompanying noise reaches historic levels, market volatility and investor anxiety will likely rise. Investors will need to temper their emotions and remain disciplined to navigate through the coming period of market stress.

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S&P 500® Index: An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap U.S. companies in leading industries; gives a broad look at the U.S. equities market and those companies' stock price performance.

Bloomberg Barclays US Aggregate Bond Index: An unmanaged, market value-weighted index of U.S. dollar-denominated, investment-grade, fixed-rate, taxable debt issues, which includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency).

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