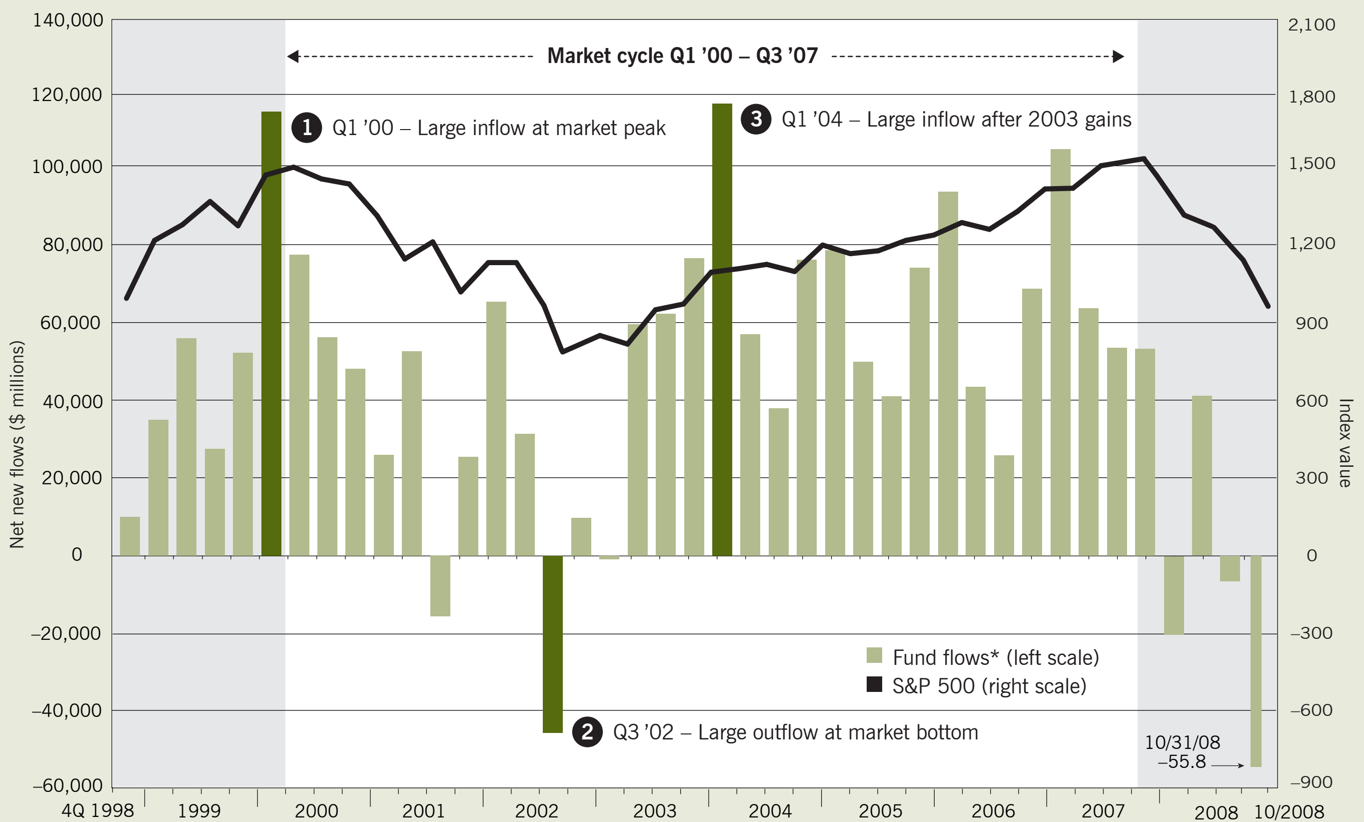
Avoiding bear market mistakes

There's little doubt about it — when financial markets are on the rise, the desire to invest grows. And when markets decline, investors tend to do nothing or, worse, run for cover. These tendencies were evident during the 10-year period depicted in Chart 1. The black line shows the value of Standard & Poor's 500 Composite Index, and the bars represent the amount of money flowing into domestic and international equity mutual funds and exchange-traded funds. One of the greatest flows of money into the market occurred right as it was peaking in early 2000 — arguably the worst time to invest. Some of the highest flows out of these funds happened when the market hit bottom in the fall of 2002. The lesson: By letting market results drive investment behavior, investors risk buying high and selling low.

Chart 1

Buying high, selling low — herd behavior during a market cycle

During the past 10 years, quarterly fund flows closely tracked the highs and lows of the market



* Domestic and international equity mutual funds and ETFs.
Source: Strategic Insight. The S&P 500 Index is unmanaged, and its results assume reinvested distributions but do not reflect sales charges, commissions or expenses.

Past results are not predictive of results in future periods. Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so you may lose money.

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Making good decisions during market declines

When the markets are in turmoil, it's only human for investors confronted with uncertainty to consider changing their investment plan. Some might want to get out of the market altogether. Others may choose to stay the course. Investors with a consistent investment program might wonder whether to stick with their plan.

Chart 2 depicts the behavior of three hypothetical investors during the market cycle from 2000 to 2007. The first (Investor A) represents an investor who followed the crowd, buying high and selling low based on fund flows shown in Chart 1. The second (Investor B) used the buy-and-hold approach, while the third (Investor C) maintained a consistent investment discipline, contributing the same amount per month through good times and bad. The results speak to the wisdom of a slow and steady investment plan. Investor C's plan resulted in $6,996 more in value than the investor who allowed the crowd to dictate investment decisions, and $3,731 more than Investor B, who simply stayed the course.

Take action

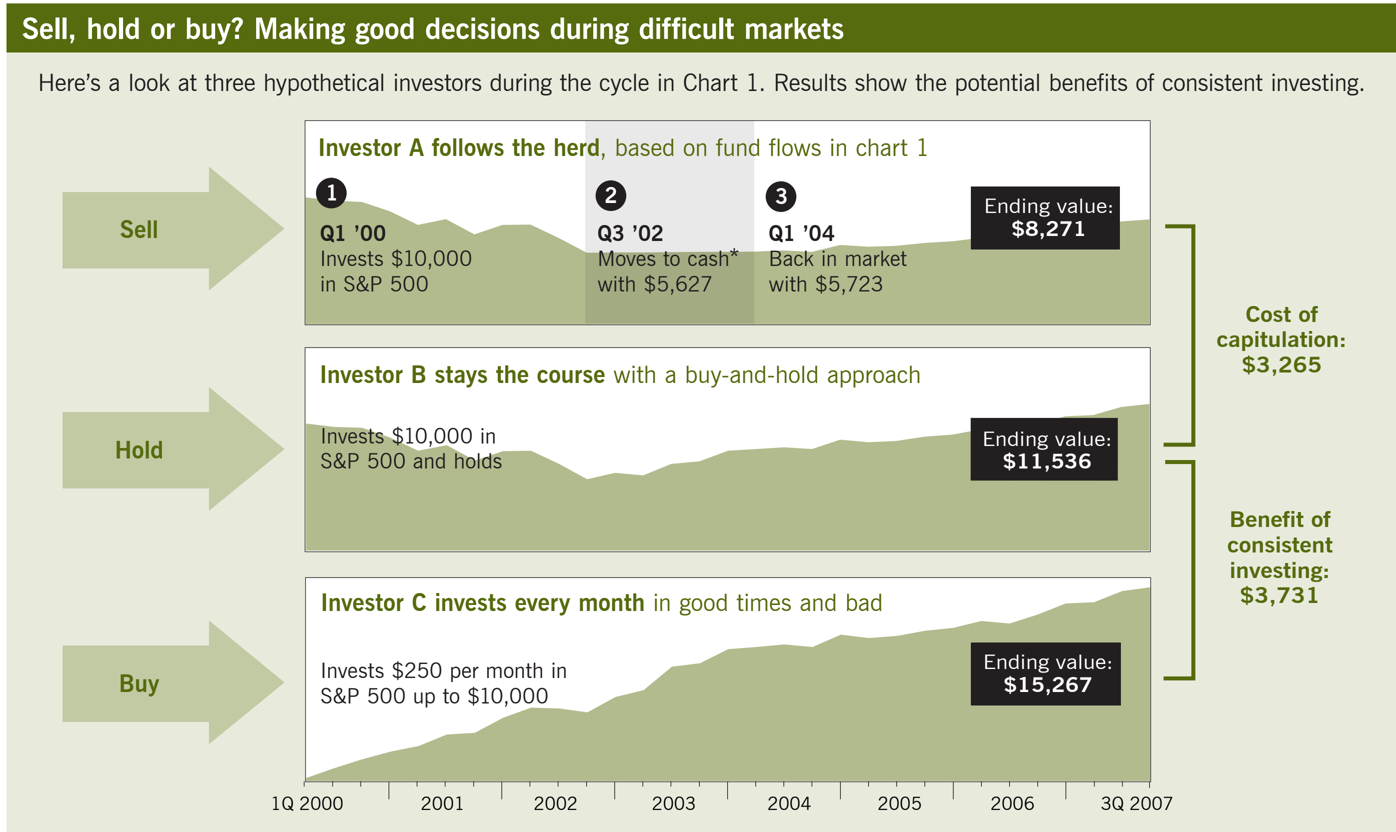
During difficult markets, investors need a plan. Work with your adviser to develop a systematic investment program that can help:

- Take the emotion out of investing
- Reduce the temptation to buy high and sell low
- Deliver results with the potential to help you reach your long-term objectives

Chart 2

Sell, hold or buy? Making good decisions during difficult markets

Here's a look at three hypothetical investors during the cycle in Chart 1. Results show the potential benefits of consistent investing.



*Cash is Citigroup 3-month T-Bill Index.
The S&P 500 Index is unmanaged, and its results assume reinvested distributions but do not reflect sales charges, commissions or expenses.
Unlike fund shares, investments in U.S. Treasuries are guaranteed by the U.S. government.

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