Why It Still Pays to Stay Invested

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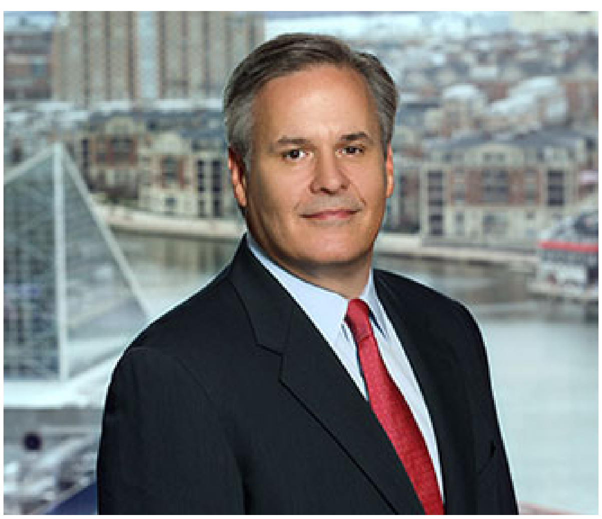
In 2022, as the market was headed for its worst year since the global financial crisis, many investors wondered if it was time to lighten up on stocks. By September, after the S&P 500 Index had already lost about 20% of its value, a majority of investors had done just that, holding less in equities and more in cash than they normally do.[1]



Investors stand a much better chance of maximizing their investment performance by staying invested

The market made many investors regret that decision, with stocks rebounding nearly 20% in the first eight months of this year. And even after that strong bounce back, some investors are again wondering if it makes sense to stay fully invested, especially since a majority believe a recession is likely to strike between now and the end of next year.[2]

Are these investors wrong? While it's impossible to know with certainty how stocks will perform in the coming weeks or months, investors stand a much better chance of maximizing their performance by staying invested at all times, rather than trying to pick and choose when to exit and re-enter the market.

To be sure, uncertainties abound, ranging from geopolitical risks to inflation to the real possibility that the Federal Reserve may not be done raising interest rates to cool the economy. But has there ever been a market environment in which there was absolute certainty about the health of corporate balance sheets, consumers, or the economy? Of course not.

Here are a few reasons why it ultimately pays to stay invested, even in uncertain times like these:

The alternative is much, much harder
The past couple of years offer a perfect example of the risks of trying to time the market. Last year, investors didn't turn truly bearish until stocks had already declined by more than 19%. At the same time, surveys showed that investors didn't turn truly bullish this year until after stocks had already rebounded more than 19%. Selling only after stocks have lost considerable value and then waiting until stocks have rebounded significantly before returning to the market is a sure-fire recipe to lag the market.

This explains why, over the past 30 years, the average investor earned just 6.8% annually through their equity funds, even though the S&P 500 returned 9.7% annually during this stretch, according to the investment research firm Dalbar[3]. That difference may not seem significant but consider this: The average investor saw their $10,000 investment in stock funds grow to $72,000 over the past 30 years. By contrast, a $10,000 investment in the S&P 500 would have grown to $160,000.

Fleeing the market is the wrong way to look at downturns
The famed investor Shelby Davis once noted that "You make most of your money in a bear market; you just don't realize it at the time." That's because the price you pay for new investments directly affects your potential returns. Market selloffs give long-term investors the ability to make new investments at attractive prices and hold them for decades. The smart money takes advantage of these openings. This is why it's not only important to stay the course in difficult markets, it's also beneficial to keep investing, as difficult and counterintuitive as that may seem.

Stocks rise more frequently than they fall
The odds are simply in favor of buy-and-hold investors. Over the past 70 years, U.S. stocks have risen 54% of the time, while falling on 46% of trading days. This pattern has held in difficult times too. Meanwhile, bear markets tend to be much shorter-lived than bull markets. Since 1926, the average bear market has lasted 1.3 years, while the typical bull market has run for 6.6 years.

Of course, this advantage only holds true if you're in the market at all times. Trying to time the market shifts those odds, as there's a good chance you'll be out of the market on more up days than down. Yet another reason to stay invested.

[1] "**BofA Survey Shows Investors Fleeing Equities En Masse On Fear of Recession**," Bloomberg. Sept. 13, 2022.
[2] "**Most Investors Expect a U.S. Recession Before End of 2024**," InvestmentNews. Aug. 7, 2023.
[3] **Dalbar QAIB 2023: Investors Are Still Their Own Worst Enemies**. April 3, 2023.