The Tale of 10 Days

For years, conventional investment wisdom discouraged market timing strategies by warning investors that missing the market’s “10 best days” would drag down the value of their portfolios. But the best days are only part of the story – as it turns out, over the past 84 years, the market’s worst days had a far greater effect on portfolio returns. Clearly, investors need to hear both sides of the story.

Key points

1. **Dickensian dilemma.** The market’s worst days have had a larger effect on returns than the market’s best days.

2. **The best and worst of times.** Hitting the 10 best performance days likely means hitting the 10 worst. That means a focus on risk management is critical.

3. **Too little, too late.** Capturing positive performance may not be enough to overcome losses, depending on your investment timetable.

4. **Intentional Investing℠** Talk to your advisor about building a financial plan that seeks to balance growth opportunities and downside risk management.

Rethinking Risk / The Tale of 10 Days

Invesco
Dickensian dilemma

*It was the best of times, it was the worst of times* ... Charles Dickens wasn’t thinking of the stock market when he wrote his famous line, but that message can serve as a good reminder for investors: There are two sides to every story. You shouldn’t concentrate on the market’s best days and ignore the effects of the worst.

From 1928 through 2011, a $1 investment would have grown to $71.21 under a buy-and-hold strategy that captured the performance of each and every day—including the 10 best and 10 worst days.

Obviously, missing positive performance will lower returns. If you missed the 10 best days of market performance in those 84 years, $1 would have grown to only $23.62, about one-third of the growth for the entire period. This is the basis for the warning, “Don’t miss the 10 best days.”

But what happens if an investor misses the 10 worst days? In that scenario, a $1 investment would have grown to $226.14, more than tripling the overall $71.21 growth from 1928 through 2011. This illustrates that losses can have a disproportionate impact on portfolio returns versus gains.

What if an investor avoided the extremes altogether? Missing the 10 best and 10 worst days would have resulted in a return of $75.01 on a $1 investment. That’s $3.80 more than the returns of a buy-and-hold strategy with less volatility.

Finally, look at cash. If investors avoided the market completely, they’d have $19.32 after 84 years.

The market’s worst days have had a large effect on returns

<table>
<thead>
<tr>
<th>Days</th>
<th>Growth of $1</th>
<th>Cumulative Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capture 10 best and worst</td>
<td>71.21</td>
<td>7,021.18</td>
</tr>
<tr>
<td>Miss 10 best</td>
<td>23.62</td>
<td>2,262.10</td>
</tr>
<tr>
<td>Miss 10 worst</td>
<td>226.14</td>
<td>22,514.32</td>
</tr>
<tr>
<td>Miss 10 best and worst</td>
<td>75.01</td>
<td>7,401.19</td>
</tr>
<tr>
<td>Cash</td>
<td>19.32</td>
<td>1,831.52</td>
</tr>
</tbody>
</table>

Sources: Bloomberg L.P., Invesco, Morningstar. ©2012 Morningstar, Inc. All rights reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance cannot guarantee comparable future results. Cash results are based on the Ibbotson U.S. 30-Day T-Bill Index.

Don't ignore the effects of the market's worst days on your portfolio value.

BOTTOM LINE

Rethinking Risk / The Tale of 10 Days
The best and worst of times

At this point, you may be thinking that the best course of action is to simply avoid the market’s worst days. But could you have predicted when those would occur? During the 84 years noted above, the 10 best and 10 worst days typically fell in proximity to each other, making it extremely difficult – if not impossible – to avoid the worst while benefiting from the best.

Not surprising, many of the worst performance days hit during bear markets. But so did many of the best performance days. This characterizes the extreme volatility investors have endured during market corrections.

Let’s focus on just one three-day period as an example. In 1929, Oct. 28 to Oct. 30 brought investors two of the 10 worst days (–12.94% and –10.16%) and one of the 10 best days (12.53%) of our 84-year period. During that kind of whiplash volatility, it’s highly unlikely that investors could have predicted the situation and taken action in time to protect their portfolios.

The best and the worst
The S&P 500 Index’s highest and lowest days for performance have typically occurred during bear markets and in proximity to each other, making it virtually impossible to experience only the best days.

<table>
<thead>
<tr>
<th>Date</th>
<th>Return (%)</th>
<th>Date</th>
<th>Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/30/1929</td>
<td>12.53</td>
<td>10/28/1929</td>
<td>–12.94</td>
</tr>
<tr>
<td>06/22/1931</td>
<td>10.51</td>
<td>10/29/1929</td>
<td>–10.16</td>
</tr>
<tr>
<td>10/06/1931</td>
<td>12.36</td>
<td>11/06/1929</td>
<td>–9.92</td>
</tr>
<tr>
<td>08/08/1932</td>
<td>9.26</td>
<td>10/05/1931</td>
<td>–9.07</td>
</tr>
<tr>
<td>09/21/1932</td>
<td>11.81</td>
<td>07/20/1933</td>
<td>–8.88</td>
</tr>
<tr>
<td>03/15/1933</td>
<td>16.61</td>
<td>10/18/1937</td>
<td>–9.12</td>
</tr>
<tr>
<td>04/20/1933</td>
<td>9.52</td>
<td>09/03/1946</td>
<td>–9.91</td>
</tr>
<tr>
<td>09/05/1939</td>
<td>11.86</td>
<td>10/19/1987</td>
<td>–20.47</td>
</tr>
<tr>
<td>10/13/2008</td>
<td>11.58</td>
<td>10/15/2008</td>
<td>–9.03</td>
</tr>
<tr>
<td>10/28/2008</td>
<td>10.79</td>
<td>12/01/2008</td>
<td>–8.93</td>
</tr>
</tbody>
</table>


So what’s an investor to do? We believe an investor’s first priority should be to minimize risk and not take an overaggressive approach toward returns. We advocate that investors should remain invested – remember that cash returned very little after 84 years – but they should make intentional choices in an effort to help defend their portfolio against large losses.

It’s virtually impossible for investors to successfully predict market movement to capture positive performance and avoid negative performance.

BOTTOM LINE
Too little, too late

Defending against large losses is vital because as a portfolio loses value, the needed returns to break even — that is, to make up the losses — grow substantially. For example:

- A 10% loss requires an 11% gain to break even.
- A 25% loss requires a 34% gain to break even.
- A 50% loss requires a 100% gain to break even.

Historical data illustrate how difficult it can be to claw back from major losses. One dollar invested on Jan. 3, 1928, would have grown to $1.80 by Sept. 6, 1929. But from Sept. 7, 1929, to July 8, 1932, the market fell 86.2%. That shrinks our $1.80 to about 25 cents. That 25 cents more than doubled to about 53 cents by Sept. 7, 1932. But a 40.6% drop ending on Feb. 27, 1933, leaves us with a total of about 31 cents.

Now comes the S&P 500’s best performing day of our 84-year history — delivering a whopping 16.61% return on March 15, 1933. Even at the end of that market day, we’ve only got about 39 cents in our pocket. One fantastic day couldn’t make up for all of the previous losses.

Will you have enough time to recover?

Depending on your investment goals and timetable, you may not have enough time to recover from market lows — even with help from the best of days. For example, $1 shrank to 39 cents from Jan. 3, 1928, to March 15, 1933, the S&P 500 Index’s best performance day yet.

We know that at the end of 84 years, all the market’s ups and downs would result in a return of $71.21 for that $1 invested in January 1928. But who has 84 years to invest? Depending on your investment time horizon, it may be impossible to recover from the losses of a bear market.

As a portfolio loses value, the returns needed to break even grow substantially.

BOTTOM LINE
Intentional Investing

The numbers show that relying on pinpoint trades isn’t the most effective strategy – but depending on your time horizon, a buy-and-hold strategy may not work either. So what’s an investor to do? Like all good stories, there’s a moral to this one: Your first investment priority should be to minimize risk, not to chase maximum returns.

Intentional Investing is the science and art of investing with purpose, prudence and diligence. It’s about thinking carefully, planning thoughtfully and acting deliberately. Now may be a good time to talk to your financial advisor about your financial plan and to make sure that you’ve intentionally designed your strategy so that you’re comfortable with your investments during all market conditions. Together, you and your advisor can ensure your investment story is written on your terms.

Talk to your financial advisor to build a plan to help support your goals in every market.
Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their advisors for a prospectus/summary prospectus or visit invesco.com/fundprospectus.

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

All data provided by Invesco unless otherwise noted.

Diversification does not guarantee a profit or eliminate the risk of loss.

Past performance is not a guarantee of comparable future results.

The S&P 500® Index is an unmanaged index considered representative of the US stock market. The Ibbotson U.S. 30-Day T-Bill Index is an unmanaged index representative of 30-day Treasury bills.