Building Your Knowledge

The Tale of 10 Days

Missing the “10 best days” of market performance drags down the value of your portfolio. So says conventional investment wisdom that urges investors to stay invested over time and avoid market-timing strategies so they won’t miss out on the market’s top-performance days. But the best days are only part of the story.

Dickensian dilemma

*It was the best of times, it was the worst of times...*

Although Charles Dickens wasn’t referring to the stock market when he wrote his famous opening to “A Tale of Two Cities,” the message applies to investors who focus on the market’s best days while ignoring the effects of the worst days.

As it turns out, over the past 85 years, the market’s worse days had a far greater effect on portfolio returns than the market’s best days. Let’s look at how different best/worst scenarios would have affected the growth of $1 over the 85 years from Dec. 31, 1927, to Dec. 31, 2012.

The market’s worst days are just as important as its best days — maybe even more so.

### 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>Total cumulative return</td>
<td>80.76</td>
<td>7,975.82</td>
</tr>
<tr>
<td>Miss 10 best</td>
<td>26.79</td>
<td>2,578.76</td>
</tr>
<tr>
<td>Miss 10 worst</td>
<td>256.46</td>
<td>25,545.92</td>
</tr>
<tr>
<td>Miss 10 best and miss 10 worst</td>
<td>85.07</td>
<td>8,406.77</td>
</tr>
<tr>
<td>Cash</td>
<td>19.33</td>
<td>1,832.68</td>
</tr>
</tbody>
</table>

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Here’s how the “10 best days” conventional wisdom plays out:

- A $1 investment would have grown to $80.76 during the entire 85-year period, including performance on the 10 best and 10 worst days.
- Missing the 10 best days of market performance would have grown that dollar to only $26.79, about one-third of the growth for the entire period. Thus the warning: Don’t miss the 10 best days.
- But missing the 10 worst days would have yielded growth of $256.46 from that $1 investment, more than tripling the overall $80.76 growth.
- Missing the 10 best and 10 worst days would have resulted in a return of $85.07 on the $1 investment, $4.31 more than the returns of a passive strategy that includes all of the days – a greater return with less volatility.
- Finally, an investor who opted to avoid the market altogether and stay in cash would have $19.33 to show for the $1 investment after 85 years.

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. In principle, perhaps, but not in practice – how would you predict when those would occur?

As illustrated below, some of the best and worst days in the history of the stock market have occurred fairly close together during the 85-year period, making it extremely difficult – if not impossible – to avoid the worst while benefiting from the best. Not surprisingly, many of the worst-performance days happened during bear markets, but so did many of the best-performance days – an illustration of the extreme volatility investors endure during market corrections.

The Market Can Turn Quickly
Some of the S&P 500 Index's best and worst days since 1928 happened very close together.

Let’s focus on just one three-day period in 1929 as an example. 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 85-year period. October 2008 saw similar highs and lows. It’s highly unlikely that investors could have predicted that kind of whiplash volatility and taken action in time to protect their portfolios.

It would be extremely difficult to avoid the market’s worst days while benefitting from the best.
So what should you do? Attempt to minimize risk and not take an overly aggressive approach toward returns. Stay invested — remember that cash returned only $19.33 on a dollar investment over 85 years — but make intentional choices to help defend your portfolio against large losses.

Too little, too late
Defending against large losses is vital because the returns needed to break even — that is, to make up the losses — are substantial. For example, to break even:
- A 10% loss requires an 11% gain.
- A 25% loss requires a 33% gain.
- A 50% loss requires a 100% gain.

The chart below illustrates how difficult it can be to claw back from major 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.


- One dollar invested on Jan. 3, 1928, would have grown to $1.80 by Sept. 6, 1929.
- From Sept. 7, 1929, to July 8, 1932, the market fell 86.2% — shrinking the $1.80 to about 25 cents.
- By Sept. 7, 1932, that 25 cents would have more than doubled to about 53 cents.
- A 40.6% drop ending on Feb. 27, 1933, would have reduced it to about 31 cents.
- Even after the S&P 500 Index's best-performing day of our 85-year history — a whopping 16.61% return on March 15, 1933 — the total is only about 39 cents.

Depending on your investment time horizon, it may be impossible to recover from bear-market losses, even if you experience a “top-10” performance day.

As you can see, the best days are only part of the story because the market's worst days had a far greater effect on portfolio returns over the past 85 years. That's why investors need to hear both sides of the story.
Talk to your financial advisor
Work with your financial advisor to build an intentional investment strategy that balances growth opportunities and downside protection to keep your plan on track during good days and bad ones.

Your challenge as an investor is to create a financial strategy that's built to meet your needs no matter what the markets are doing. Meeting that challenge requires thoughtful planning, deliberate action and a financial partner who's dedicated to your success – that's what Intentional Investing® is all about.