Russell Investments

Investor

Fall 2017

Staying invested

Not FDIC Insured · May Lose Value · No Bank Guarantee

INVESTED. TOGETHER.®

Market timing – always tricky

The case for staying invested

When markets are falling, it can be tempting to pull your money out of equities and take shelter in the comfort of cash or fixed income. Conversely, when markets are rising, it might seem wise to invest even more into what looks like a good thing.

But entering or exiting the market at just the right time – known as timing the market – can produce worse results than investing in a diversified multi-asset portfolio and holding onto it for the long haul. Because investors can often let their emotions rule their decisions, they tend to sell in a panic at the bottom of market cycles and rush to buy in a burst of enthusiasm when markets peak.

As much as any investor would like to avoid market downturns, trying to time the market generally adds risk and potentially costs to your portfolio. Trying to avoid being invested on the bad days and catching only the good days requires making two correct decisions 1) getting out at the right time, and 2) knowing when to get back in. They're both difficult calls to make with potentially real consequences to your portfolio.

Since no two market cycles are the same, it isn't easy to anticipate market movements. All sorts of factors – politics, monetary policy, economic activities (such as corporate mergers and consumer spending), investor sentiment, international events -- can move the markets. Often, reversals are quick and unpredictable and the market has picked up steam again by the time nervous investors feel confident that everything has settled and it's an appropriate time to re-enter.

Take for example the spectacular market volatility surrounding Britain's 2016 referendum on its European Union membership – known as Brexit. On June 24, 2016, the day after British voters chose to "leave" the economic bloc, markets around the world reacted strongly: The Russell 1000® Index lost -3.6% the day after the vote, and another -1.9% on the following Monday. Many investors may have been tempted to pull their money out of the market until the situation settled down.

But if they had done so, they could have missed out on potentially significant gains. Within a week after the Brexit vote, the Russell 1000® Index had recovered lost ground, then went on to advance to 10% by the end of the year.

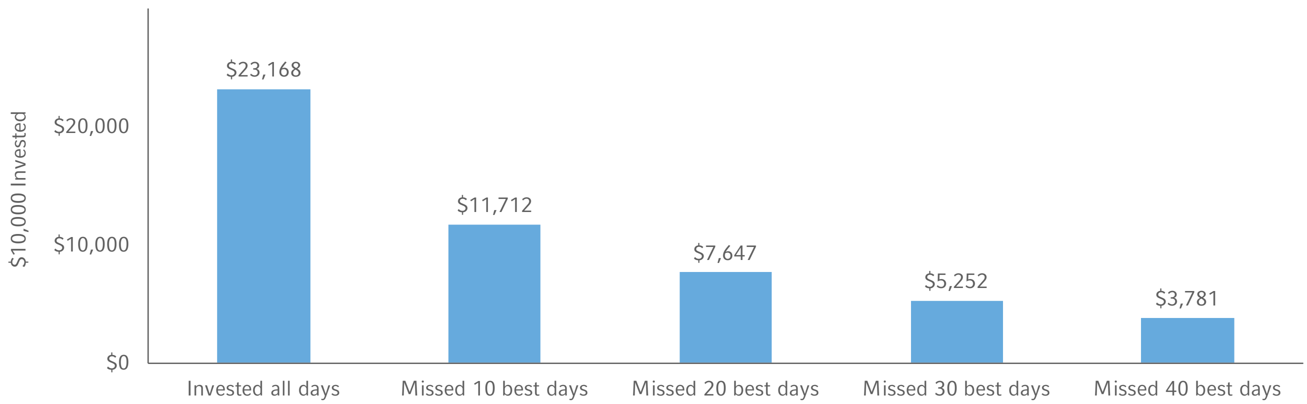
Declines are almost always followed by gains

Indeed, best and worst days often appear in close proximity to each other. There are many reasons for this: as noted, many investors tend to react emotionally in periods of market decline, often pushing a stock price far below its fundamental value. This can encourage value-oriented investors to buy shares that are "on sale", thus propelling the stock price higher. That in turn can spark the interest of investors who don't want to miss out on a rising star. Additionally, markets tend to react in the immediate aftermath of a key news or political event. But as more details emerge, there is often sober second thought, which can move a share price back to a trading range based on its fundamental value.

Market timers waiting for the right spot to buy can risk being out of the market during sudden market changes. The risk of being wrong is high. Get out right after a 'worst' day, and one might not get back in soon enough to catch a 'best' day. If so, they may miss future growth. Making those predictions has the potential to increase – and decrease – wealth substantially.

As the chart below shows, **an investor who missed the past decade's 10 best market return days would have given up nearly** half **the portfolio return they could have earned if they had been invested for the entire 10-year period**. Conversely, missing even just one of the decade's 10 worst performing days would have helped boost portfolio returns; that portfolio would be worth more than *double* that of a portfolio that had been 'invested all days.'

The importance of Staying Invested
The growth of $10,000 invested from Oct 1, 2006 - Jun 30, 2017



Source: Russell 1000® Index. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. This hypothetical example is for illustration only and is not intended to reflect the return of any actual investment. Investments do not typically grow at an even rate of return and may experience negative growth.

If we extend the number of 'missed days' to 20, 30, even 40, the difference is striking:

- An investor who missed the 40 *best* days over the last 10 years was left just 38% of their original portfolio value.
- An investor who missed the 40 *worst* days enjoyed a portfolio value worth over seven times more than the value of a portfolio that was 'invested all days.'

THE BOTTOM LINE – STAY INVESTED

There are two facts that work against market timing.

One: The general trend in equity markets globally is positive. Equity investing over the last five, 10 or 20 years has not been a zero-sum game. An investor who "stayed the course" over this time is likely to have seen growth in their portfolio. You can choose to benefit from that general trend or second-guess it along the way and miss its benefits.

Two: Returns are lumpy: they do not move in a linear manner. It's certainly true that short-term volatility can be nerve-wracking. But rather than reacting to volatility and trying to time short-term market gyrations, investors should base their investment strategy on their investment goals, time horizon, financial circumstances and risk tolerance, not on what markets are doing at a given moment.

In partnership with your financial advisor, a well-thought out investment plan may prove more successful in achieving long-term outcomes. For example, investing in a multi-asset portfolio offers the potential to protect your portfolio on the downside, while still capturing returns when markets rise.

Investor

INVESTOR is published quarterly by Russell Investments. Please direct comments or questions to your plan sponsor or financial professional.

russellinvestments.com

› About Russell Investments

For more than 40 years, we've helped guide the investments of some of the world's largest companies, foundations and pension plans. Working with your plan sponsor or financial advisor, you can benefit from this same expertise through our multi-asset, outcome-oriented solutions that are strategically designed to address investors' wide-ranging investment needs and objectives. No matter what stage of life you are in, we believe how you invest matters. That's why we provide investment solutions that are designed with your goals in mind.

Disclosures

Investors should consider how the combined risks impact their total investment portfolio and understand that different risks can lead to varying financial consequences, including loss of principal.

The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

Returns represent past index performance and should not be viewed as a guarantee of future index or investment performance. Indexes are unmanaged and cannot be invested in directly.

The S&P 500, or the Standard & Poor's 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

Russell Investments' ownership is composed of a majority stake held by funds managed by TA Associates with minority stakes held by funds managed by Reverence Capital Partners and Russell Investments' management.

Frank Russell Company is the owner of the Russell trademarks contained in this material and all trademark rights related to the Russell trademarks, which the members of the Russell Investments group of companies are permitted to use under license from Frank Russell Company. The members of the Russell Investments group of companies are not affiliated in any manner with Frank Russell Company or any entity operating under the "FTSE RUSSELL" brand.

Copyright © Russell Investments 2017. All rights reserved. This material is proprietary and may not be reproduced, transferred, or distributed in any form without prior written permission from Russell Investments. It is delivered on an "as is" basis without warranty.

Russell Investments Financial Services, LLC, member FINRA, part of Russell Investments.

First used: September 2017 RIFIS 19173

FSC www.fsc.org MIX Paper from responsible sources FSC® C101537