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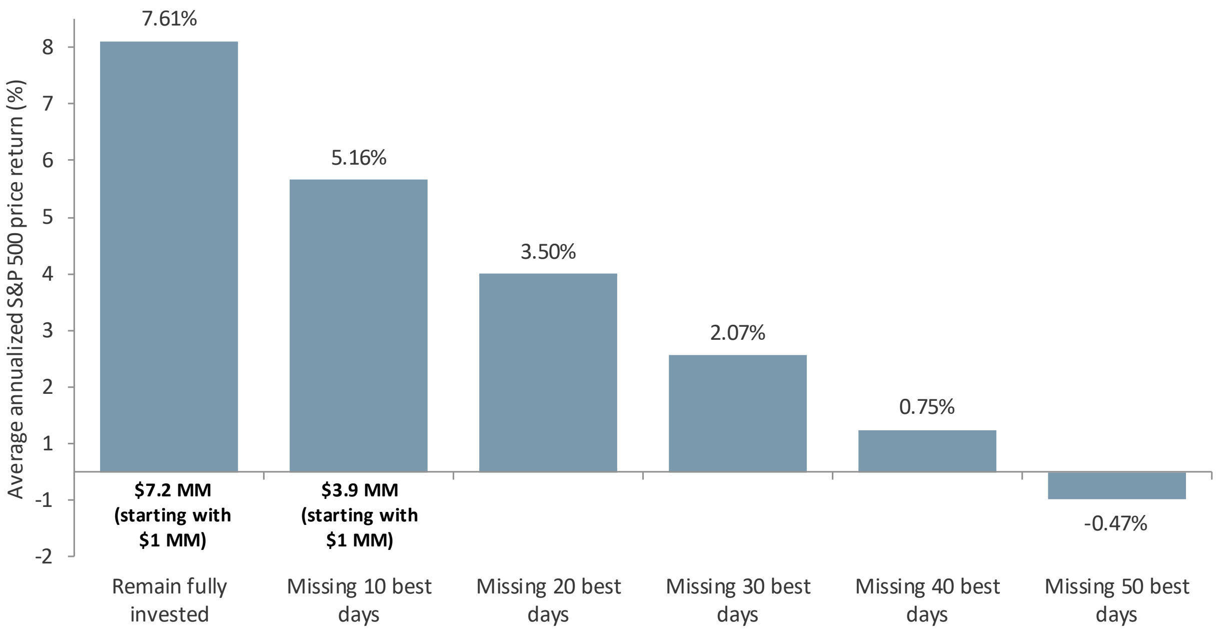
Chart of the Week

INVESTMENT TOPICS AND MARKET TRENDS USING CURRENT AND HISTORICAL ECONOMIC DATA

March 13, 2019

The Potential Cost of Trying to Time the Markets



Sources: Bloomberg, Wells Fargo Investment Institute, December 31, 2018. MM = millions. *For illustrative purposes only.* A hypothetical $1 million investment in the S&P 500 Index during the time period indicated. A price return index is not a total return index and does not include the reinvestment of dividends. The S&P 500 Index is a market capitalization weighted index composed of 500 stocks generally considered representative of the US stock market. Index returns do not represent investment performance or the results of actual trading and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Missing the best days in the market (1989-2018)

"Market timing" means moving all or a very large portion of an investment portfolio into or out of stocks, bonds, and other asset classes based on short-term performance expectations. In theory, this could be a great way to achieve gains and avoid losses. In practice, however, this strategy is extremely difficult to accomplish.

To effectively time the market, an investor has to be right twice, correctly predicting when to move out of and then when to move back into an asset class. As the chart shows, over the 30-year period from 1989 through 2018, missing even a handful of the days when the stock market experienced its best gains can dramatically reduce returns.

What it may mean for investors

Investors who attempt to time the market—or react to a single market event or an overstated headline—risk getting caught on the wrong side of a market move. We believe investors are best served by sticking to a disciplined investment strategy and avoiding emotional reactions based on short-term uncertainty.

Tracie McMillion, CFA, *Head of Global Asset Allocation Strategy*

This chart was excerpted from the Asset Allocation Strategy In Depth report dated February 7, 2019.

Risks Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

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