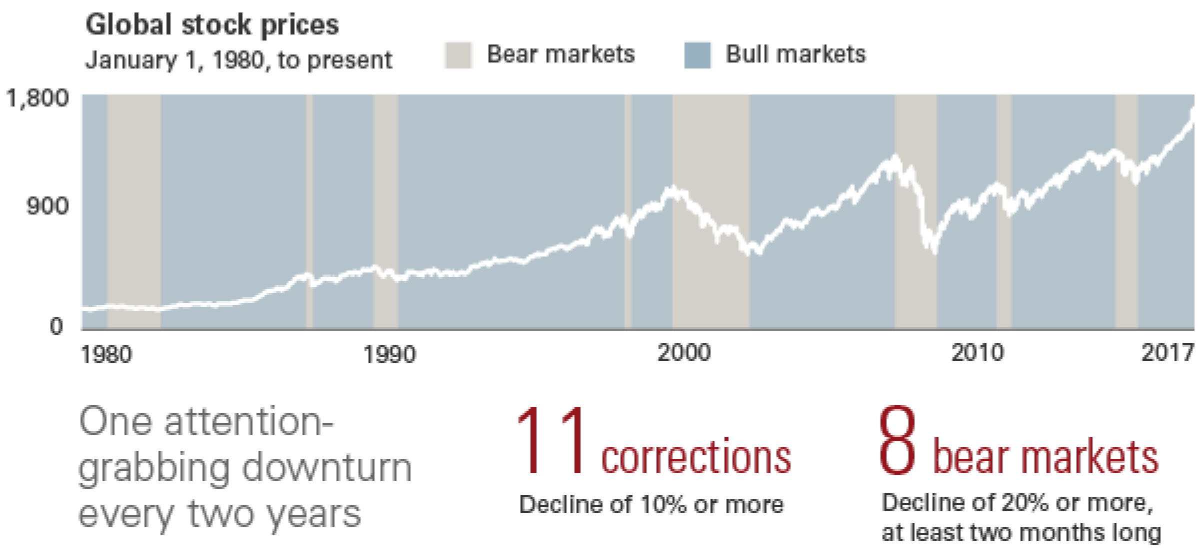
Help in navigating market corrections

The U.S. stock market has experienced some volatile trading days recently, including consecutive sessions in which the Standard & Poor's 500 Index posted significant losses. Although there are explanations for these sell-offs—concerns about heightened valuations, rising inflation, and U.S. Federal Reserve policy, to name a few—they have caught most investors by surprise. And they've led to inevitable questions about whether one of the longest-running bull markets since the Great Depression is about to cool off.

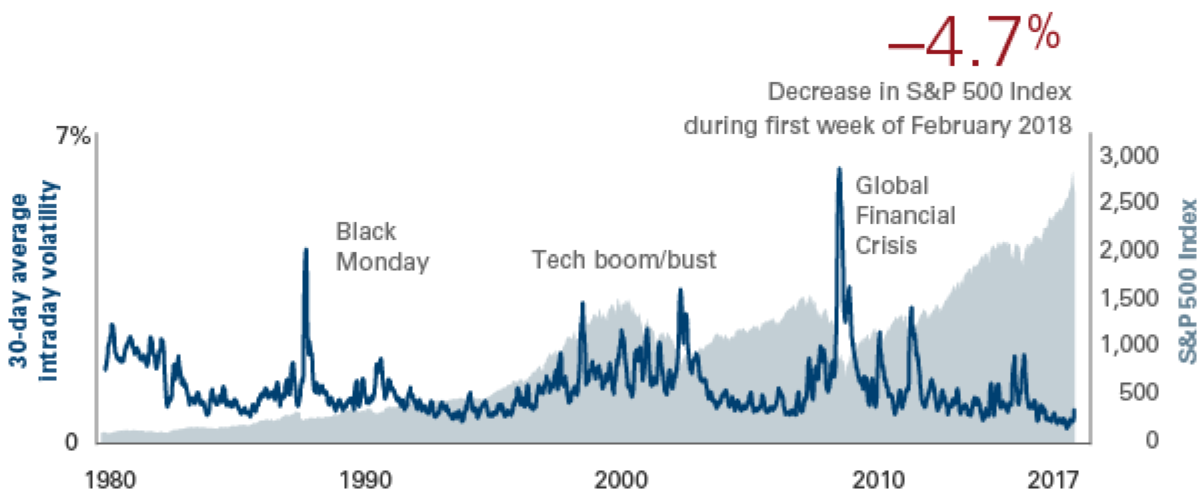
It's important to put these losses into context. As the graphics below show, trying to time these events can lead to costly mistakes.

Downturns aren't rare events, and the typical investor will endure many



Source: Vanguard analysis based on the MSCI World Index from January 1, 1980, through December 31, 1987, and the MSCI All Country World Index thereafter. Both indexes are denominated in U.S. dollars. Our count of corrections excludes those that turned into a bear market. We counted corrections that occurred after a bear market had recovered from its trough even if stock prices hadn't yet reached their previous peak.

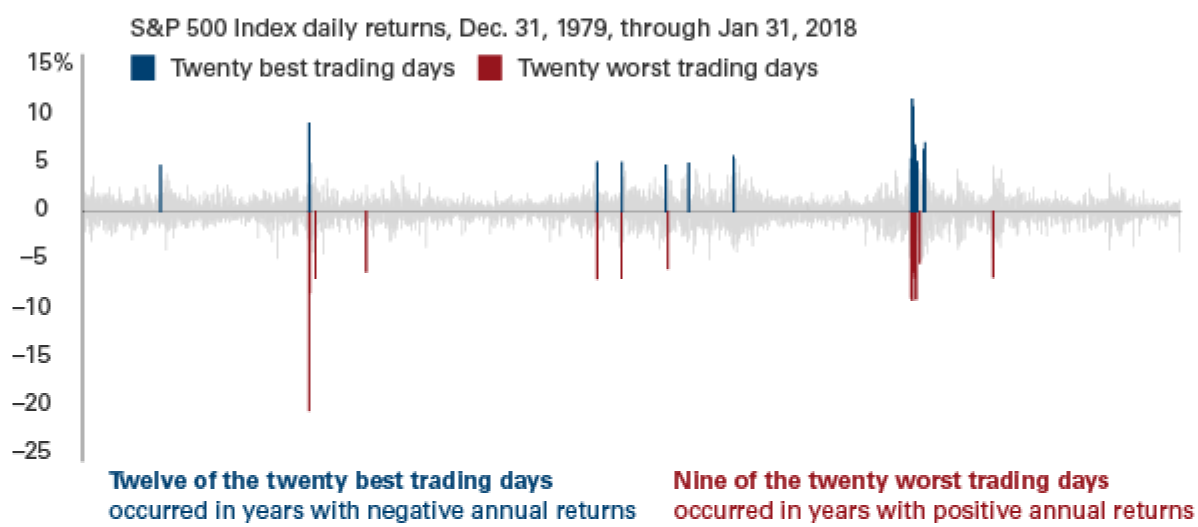
Dramatic losses can sting, but it's important to keep a long-term perspective



Note: Intraday volatility is calculated as daily range of trading prices [(high – low)/opening price] for the S&P 500 Index.

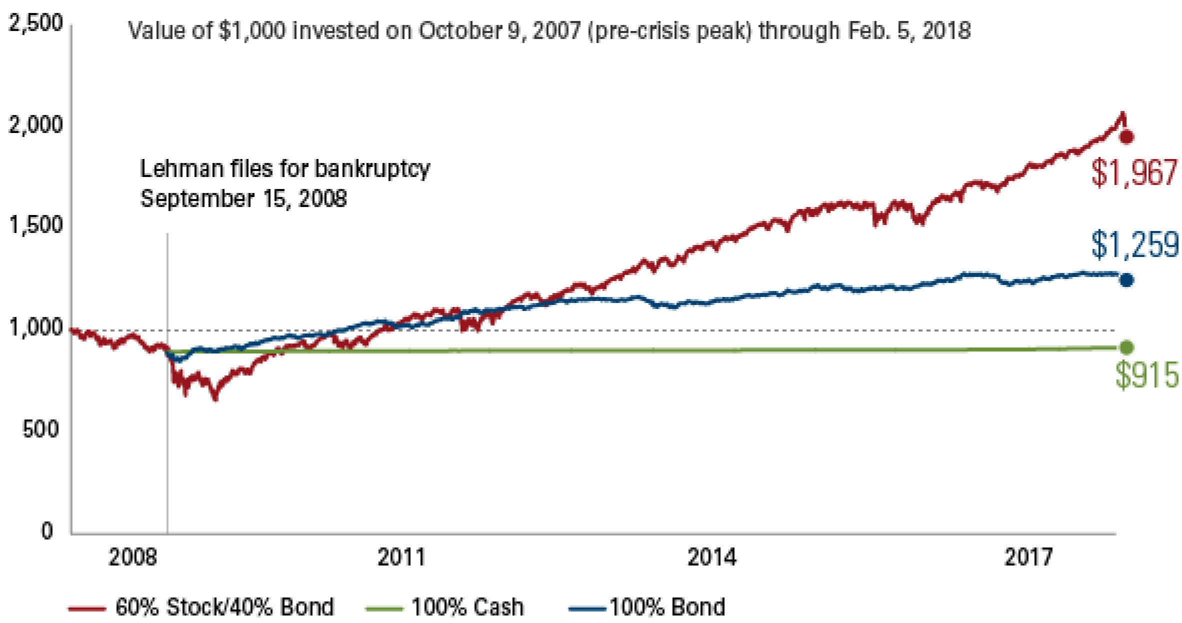
Source: Vanguard calculations, using data from Yahoo! Finance.

Timing the market is futile: The best and worst trading days happen close together



Source: Vanguard.

Altering asset allocations can be costly



Note: Balanced portfolio is represented by 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index; bonds are represented by Bloomberg Barclays U.S. Aggregate Bond Index; and cash is represented by Bloomberg Barclays U.S. 3-Month Treasury Bellwether Index.

Source: Vanguard calculations, using data from FactSet.

Remember the value of:

- **Having realistic expectations:** Vanguard's Investment Strategy Group anticipates higher risks and lower returns over the near and medium term.
- **Staying diversified:** A great way to insulate a portfolio is to have exposure to stocks, bonds, and international markets. Bonds can act as ballast during downturns. International exposure provides access to markets that may be generating positive performance when others are falling.
- **Tuning out the noise:** There's an old adage of never checking accounts when stocks are tanking. It's smart advice. As the graphics above show, making a decision based on a recent market event usually results in a mistake.