

# Remaining Disciplined During Market Downturns



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INVESTING

MARKET VOLATILITY

Investors who remain committed to their financial goals in the face of short-term market turbulence may ultimately benefit.



## KEY TAKEAWAYS

- Short-term market volatility is unavoidable, but long-term discipline matters most.
- Trying to time the market often hurts long-term results.
- Staying invested during downturns supports long-term goal achievement.

With changing market dynamics in recent years—including the advent of high-frequency and algorithmic trading, evolving central bank policy, and the continued rise of passive investing—market drawdowns can now occur faster than in years past and have become increasingly difficult to avoid.

## Avoiding Common Pitfalls During Periods of Stress

During periods of market volatility, it is essential to consider your long-term investment goals, as decisions made during these periods can meaningfully affect the likelihood of achieving those objectives.

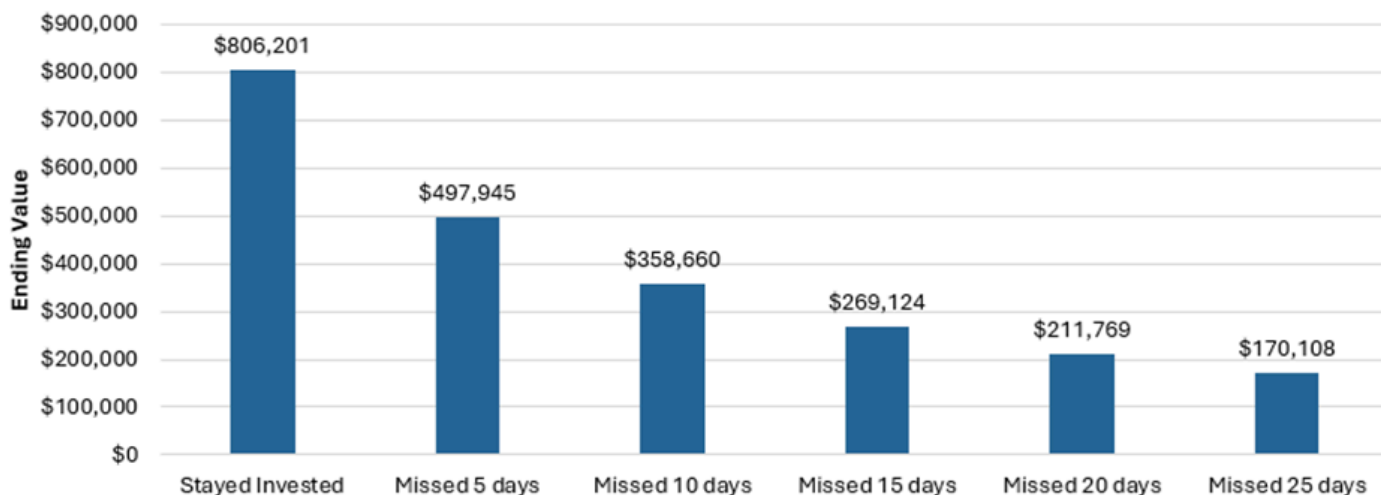
These goals—whether saving for college or retirement, planning for charitable giving, or addressing estate planning needs—are the foundation of most investment strategies and are the primary reason most participate in the markets in the first place.

During a market correction, it's understandable to feel the urge to exit the market and sit on the sidelines until conditions improve. While this may feel reassuring in theory, history suggests it is difficult to execute successfully in practice.

Market returns over time can be dramatically influenced by just a handful of strong trading days. It is difficult, if not impossible, to predict when these outlier days may occur. As Exhibit A, attempting to exit and re-enter the market can significantly impact long-term performance and may reduce your ability to reach your goals.

### Exhibit A: Stay invested: Missing top-performing days can hurt your return

The graph below shows how a hypothetical \$100,000 investment in stocks would have been affected by missing the market's top-performing days over the 20-year period from January 1, 2006 to December 31, 2025. For example, an individual who remained invested for the entire time period would have accumulated \$806,201, while an investor who missed just five of the top-performing days during that period would have accumulated only \$497,945.



Sources: BlackRock; Bloomberg. Stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

\*Janney makes no representation that an account will obtain gains or losses similar to those illustrated. There are distinct differences between hypothetical performance and performance achieved by actual trading platforms. Returns illustrated do not reflect any management fees, transaction costs, or expenses. Performance data quoted represents past performance and is no guarantee of future results. The S&P 500 is an unmanaged, capitalization-weighted index. Performance figures assume reinvestment of capital gains, dividends, but do not include fees or expenses. It is not possible to invest directly in the S&P 500.

Additionally, exiting the market following a sharp market decline has historically been shown to be an inopportune time to reduce exposure. Exhibit B shows the performance of the S&P 500 Index in the 12 months following some of the market's largest recent declines. Those sitting on the sideline for any sizable portion of that rebound would have likely seen their long-term performance suffer as a result.

### Exhibit B: Annual Returns After Major Market Declines

Event	Dates	Decline	Next 12 Months
<b>Black Monday</b>	08.25.87 - 12.04.87	-33.5%	+21.4%
<b>Gulf War</b>	7.16.90 - 10.11.90	-19.9%	+29.1%
<b>Asian Crisis</b>	7.17.98 - 8.31.98	-19.3%	+37.9%
<b>Tech Bubble</b>	3.02.00 - 10.09.02	-49.0%	+33.7%
<b>Global Financial Crisis</b>	10.09.07 - 3.09.09	-56.8%	+68.6%
<b>Trade War</b>	10.03.18 - 12.24.18	-19.6%	+37.1%
<b>COVID-19</b>	2.20.20 - 3.23.20	-33.8%	+77.8%
<b>Inflation / Fed Tightening</b>	1.03.2022 - 10.12.2022	-25.4%	+24.2%

Source: Standard & Poor's, FactSet, Bloomberg, and JP Morgan Asset Management. Data as of December 31, 2024.

Some investors may attempt to time the market by exiting ahead of a downturn. However, effective market timing is exceptionally difficult--even for highly skilled investors. What is often overlooked is that market timing requires two decisions: not only when to exit the market, but also when to re-enter to participate in the subsequent rebound.

Investors who attempt this strategy risk exiting too late to avoid much of the downturn, and then re-entering too late to capture a meaningful portion of the rebound. Over time, this approach can contribute to underperformance and may reduce the likelihood of achieving long-term investment objectives.

### Keep Your Long-Term Goals in Focus

Remaining disciplined during a market downturn is challenging, as heightened volatility and portfolio losses can be difficult to endure. Nevertheless, maintaining focus on long-term investment goals is especially important during market stress when the timing of decisions can have an amplified impact on performance.

### Frequently Asked Questions

#### Why does market volatility happen so frequently today?

Market volatility has always been a feature of investing, but evolving market dynamics—such as high-frequency and algorithmic trading, shifting central bank policies, and the growth of passive investing—can cause market declines to occur more quickly than in the past. While the speed of these movements may feel unsettling, short-term volatility remains a normal part of long-term investing.

## **How should investors think about volatility in relation to long-term goals?**

Periods of market stress are when long-term goals matter most. Decisions made during volatile markets can significantly influence an investor's ability to achieve objectives such as retirement planning, education funding, charitable giving, or estate planning. Staying focused on these goals helps provide perspective during short-term market turbulence.

## **Is it wise to exit the market during a downturn and wait for conditions to improve?**

Although moving to the sidelines may feel reassuring, history suggests this approach is difficult to execute successfully. Investors who exit the market risk missing critical periods of recovery, which can meaningfully impact long-term results.

## **Why can missing a few days in the market matter so much?**

Market returns over time are often driven by a relatively small number of strong trading days, which are nearly impossible to predict. Missing these days—often because of exiting and re-entering the market—can significantly reduce long-term performance and affect progress toward financial goals.

## **Can market timing help reduce losses?**

Market timing requires two precise decisions: knowing when to exit and when to re-enter. Even experienced investors find this exceptionally difficult. Those who attempt to time the market may exit too late to avoid most of the downturn and re-enter too late to benefit fully from the recovery.

## **What typically happens after major market declines?**

Historically, significant market declines have often been followed by strong rebounds. Investors who remain on the sidelines for any portion of these recoveries may experience diminished long-term performance compared to those who stayed invested.

## **What are the long-term risks of trying to time the market?**

Over time, attempting to time the market can lead to underperformance and reduce the likelihood of achieving long-term investment objectives. Repeatedly reacting to short-term movements can undermine a well-constructed investment strategy.

## **What is the most effective approach during periods of heightened volatility?**

While remaining invested during downturns can be challenging, maintaining discipline and adhering to a long-term investment strategy is often more effective than reacting to short-term market movements. Staying focused on long-term goals—and planning for more—can help investors navigate uncertainty with greater confidence.

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