Bear markets

Bull markets

Recent dramatic stock market losses have caught many investors off guard and led to questions about whether the second-longest-running bull market since the Great Depression is about to cool off.

It’s important to put these losses into context. Knee-jerk reactions in this market environment can lead to costly mistakes.

Note: Unless otherwise stated, data is for the S&P 500 Index. Vanguard believes the assertions in this article would hold if international data were used.

Downturns aren’t rare events: Typical investors, in all markets, will endure many of them during their lifetime.

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

Global stock prices
January 1, 1980, to present

| bear market years (volatile sectors) | Bull markets
|-------------------------------------|-----------------
| 11 corrections                      | 9 bear markets |

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

Global stock prices
January 1, 1980, to present

- 4.7%

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Consider these tips for weathering volatility.

Stay diversified
A good way to insulate your portfolio is to have exposures to stocks, bonds, and international markets in an asset allocation plan that makes sense for your risk tolerance and goals. Bonds can act as a ballast during downturns. International exposure can give you access to markets that may generate positive performance when others are falling.

There’s an old adage about never checking your account 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.

Expenses eat into your returns. This is a particularly painful realization when stock markets are correcting.

If market corrections are making you lose sleep, it may be time to reevaluate your risk tolerance.

Vanguard’s Investment Strategy Group anticipates higher risks and lower returns over the near and medium term.

Stay diversified
Control what you can: costs
Revisit your asset allocation
Set realistic expectations
Tune out the noise

Staying the course and rebalancing can pay off, whereas altering your asset allocation can be costly.

Value of $1,000 invested on October 9, 2007 (pre-crisis peak) through Feb. 5, 2018

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Value of $1,000 invested on October 9, 2007 (pre-crisis peak) through Feb. 5, 2018

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Source: Vanguard

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