Market Volatility Puts Buy-and-Hold to the Test

In a recent InvestmentNews blog **post**, **Jeff Benjamin** discusses how the latest market volatility has put a strain on long-term, buy-and-hold investment strategies.

For those feeling the temptation to to sell, fearing a big market pullback, Benjamin offers some statistics that may keep you from placing those sell orders.

"BUCKLE UP"

Benjamin cites research from **Todd Rosenbluth**, director of mutual fund and ETF research at S&P Capital IQ, who looked at every significant pullback in the S&P 500 Index since 1945 and found that the odds favor "buckling in and sitting tight" when the markets start getting bumpy.

According to Rosenbluth, from 1945 through the end of August 2015, investors have weathered 59 pullbacks of between 5% and 10%, with an average size of 7%.

Mr. Rosenbluth found that on average, it took one month for the decline to unfold and two months for the market to return to its pre-pullback levels.

Slightly more severe market corrections of between 10% and 20% have happened 20 times since 1945, including the one we saw over the past few weeks.

During the 19 prior corrections, it took the market five months on average to reach the bottom and an average of four months to recover.

Rosenbluth also looked at bear market cycles, which include a decline of 20% or more, something that's happened 12 times since 1945.

Rosenbluth's research points out that bear markets represent the ultimate test for a buy-and-hold investor, since, on average, it took 14 months for the market to reach its bottom and 25 months to get back to break even from that bottom.

"If you can be patient and ignore or stomach the volatility, it is better to be holding on and even better to be buying when there's increased volatility," Mr. Rosenbluth said. "If you've got a five- to 10-year time horizon, we think the markets will be higher than they are today, but the market is likely to be more volatile between now and the end of the year."

GO PLAY GOLF

It takes a lot of intestinal fortitude, and a strong belief in your investment plan, to stick by it when the markets are at their worst. However, there are very few people that have successfully timed the market over a multiple market cycles. I am of the opinion that, if people much smarter than I am can't time the market, there's no reason for me to try. Instead, I view the recent market turmoil as an opportunity for my 403(b) to load up on additional shares due to their drop in price.

Benjamin quotes John Eckel, president of Pinnacle Investment Management Inc., as saying that people trying to time the market are "too aggressive and too conservative at the wrong times."

He also quotes David Mullins, owner of David Mullins Wealth Management, who says "Buy and hold only works if you can stick out the bad times."

Benjamin also points out, however, that buy-and-hold doesn't mean "set it and forget it." To that end, he quotes **Daniel Crosby**, president of IncBlot Behavioral Finance: "True buy-and-hold investing without rebalancing, or too frequent rebalancing, leads investors to stray from their true risk tolerance and be overweight asset classes experiencing periods of irrational exuberance."

In the end, Benjamin's advice for worried investors is "dollar-cost-average into a solid long-term strategy, then go play golf or visit your mother."

AAII ARTICLES

AAII is a strong proponent of long-term investing, which requires a sound investment plan and the confidence to see it through, even in the most ferocious bear markets.

In the midst of this market turmoil, here are some articles from our archives that may restore your faith in buy-and-hold investing:

- **Setting Up and Ongoing Investing Program**
- **Trading More Leads to Worse Returns**
- **Portfolio Rebalancing: Diversification, Risk Control and Withdrawals**