The high cost of cashing out

When the stock market takes a dip, moving to cash can be a tempting option for investors seeking a respite from volatility. However, cashing out of a declining market could come at a cost.

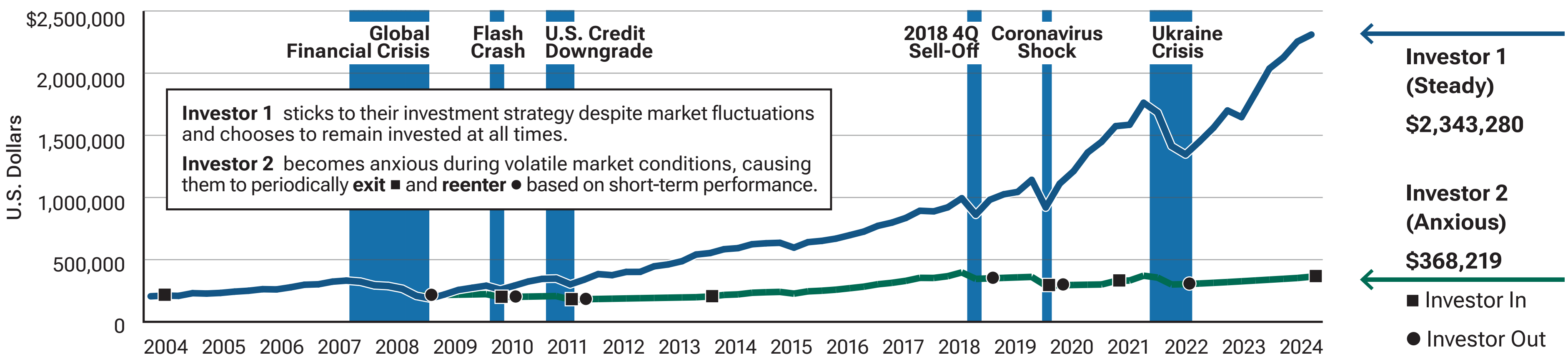
A tale of two investors

To see the benefit of staying invested through varying market conditions, let's consider two hypothetical investors.

Both investors contributed $2,000 each quarter to their investment accounts. **Investor 1** (blue, top line in the chart) kept their money and ongoing contributions invested, riding out the stock market's ups and downs. **Investor 2** (green, bottom line in the chart) moved their account balance and contributions to cash when stocks dropped 10% or more in a quarter. They only felt comfortable putting money back into equities after a fourth consecutive quarter of positive returns. This behavior was repeated throughout several market cycles.

THE 20-YEAR MARKET PERFORMANCE OF INVESTOR 1 AND INVESTOR 2 FROM 2004 TO 2024

In this example, two investors with identical portfolios achieve vastly different returns based on their decisions to either stay invested during periods of volatility or repeatedly exit and reenter the market. Both investors started investing in 1990 in the same portfolio. By March 30, 2001, both investors have $177,502. Starting in the second quarter of 2001, Investor 1 continued to invest the same way and Investor 2 decided to avoid steep losses and exited the market. Investor 2 reentered in 2004.



Investor 2, the anxious style of investor, is assumed to be invested in 3-month Treasury bills as a cash equivalent. The $2,000 contributed each quarter in this example assumes minimal interest earned. The anxious style of investor also assumes that cash is invested in Treasury bills during those periods when it is not invested in the stock market. The performance of stocks shown is that of the S&P 500 Stock Index, which measures the performance of large-capitalization companies that represent a broad spectrum of the U.S. economy. Charts are for illustrative purposes only. Investors cannot invest directly in an index. **Past performance cannot guarantee future results.**

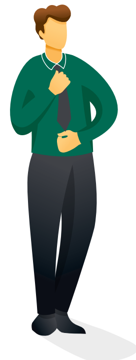
Sources: T. Rowe Price and S&P. See Additional Disclosures.

How investor behavior impacts long-term returns

While both investors saw their portfolio balances decline during downturns, they continued to contribute to their accounts. Investor 1 took advantage of lower stock prices through their ongoing contributions and was rewarded as the market recovered. Investor 2 earned less than a quarter of what the steady, long-term investor earned by the end of the period. Investor 2 exited before the market had the opportunity to correct, essentially locking in their investment losses. Doing so eliminated the opportunity to benefit from a recovery.

Investor 1 took advantage of lower stock prices through their ongoing contributions and was rewarded as the market recovered.

$2,343,280



Investor 2 earned less than a quarter of what the steady, long-term investor earned by the end of the period.

$368,219

> "In times of stress, we feel the need to do something—even when the best course of action may be to stick with the plan we already have."
>
> – **Stuart Ritter, CFP®**
> *Insights Director*

T. Rowe Price

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