

# The high cost of cashing out



T.RowePrice

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.

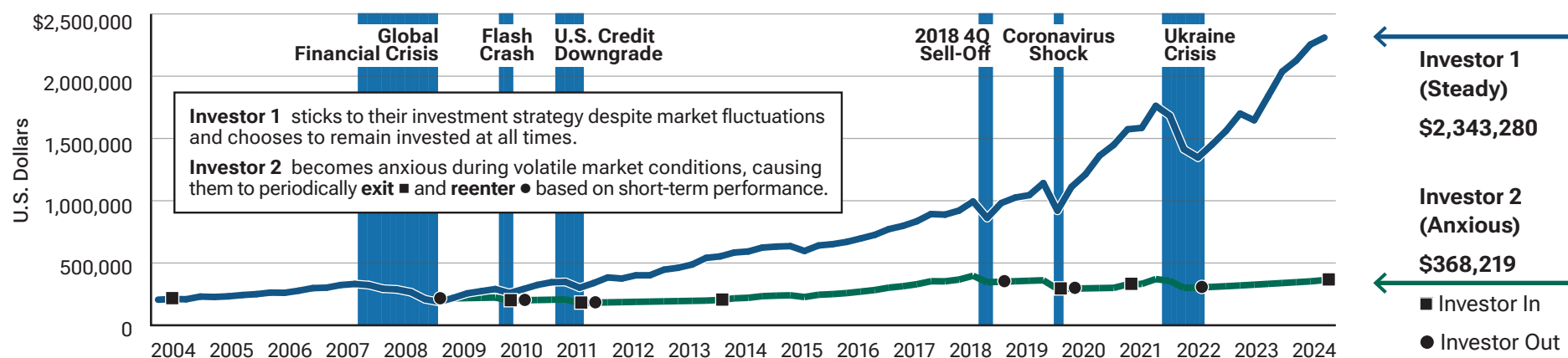
Both investors contributed \$2,000 each quarter to their investment accounts.

**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.**

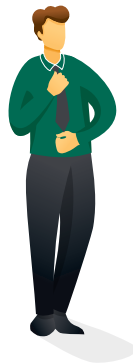
Sources: T. Rowe Price and S&P. See Additional Disclosures.

## 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.RowePrice

### Additional Disclosures

**S&P** — The “S&P 500 Index” is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates (SPDJI), and has been licensed for use by T. Rowe Price. Standard & Poor’s® and S&P® are registered trademarks of Standard & Poor’s Financial Services LLC, a division of S&P Global (S&P); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones). T. Rowe Price’s product is not sponsored, endorsed, sold, or promoted by SPDJI, Dow Jones, S&P, or their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product, nor do they have any liability for any errors, omissions, or interruptions of the “S&P 500 Index.”

**FTSE** — Source: London Stock Exchange Group PLC and its group undertakings (collectively, the “LSE Group”). © LSE Group 2024. FTSE Russell is a trading name of certain of the LSE Group companies. “FTSE®” is a trademark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company that owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data, and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company’s express written consent. The LSE Group does not promote, sponsor, or endorse the content of this communication.

**Important Information:** This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action. This information is not intended to reflect a current or past recommendation concerning investments, investment strategies, or account types; advice of any kind; or a solicitation of an offer to buy or sell any securities or investment services. The opinions and commentary provided do not take into account the investment objectives or financial situation of any particular investor or class of investor. Please consider your own circumstances before making an investment decision.

© 2025 T. Rowe Price. All Rights Reserved. T. Rowe Price, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.

T. Rowe Price Investment Services, Inc.

Investment products are:

**NOT FDIC-INSURED | NO BANK GUARANTEE | MAY LOSE VALUE**

CCON0206449  
202501-4148905