

## Keeping your perspective in a down market

When investing for long-term goals such as retirement, we're reminded to stay focused and ride out a bear market's short-term downturns.

The problem is, this bear market is beginning to feel very long-term. In fact, we're now in the longest bear market since the Great Depression. A bear market is defined as one that has lost 20% from its peak.<sup>1</sup>

### Maintaining perspective

As long-term investors in this environment, it's important to return to the fundamentals and remind ourselves of the things we know for sure.

Start by asking yourself these key questions:

- **Will the U.S. economy be bigger 10 years from now than it is today?**  
Of course, there are no guarantees, but it's very likely that the total value of all the goods and services sold in 2012 will be greater than the total value sold this year. In fact, despite the market's current woes, in the first half of 2002, the U.S. economy grew at an annualized rate of 3.1%. Inflation also continues to be low.
- **How can I participate in the growing U.S. economy?**  
Most financial advisers believe the best way to participate is by owning shares in companies that are expected to grow and profit from U.S. and global economic expansion.
- **Can I reach my long-term goals without owning stocks or mutual funds that invest in stocks?**  
With returns so low on many other investment options, stocks still offer one of the best opportunities for outpacing the rising cost of living over the long term.

### What we know

At a time when the markets seem very uncertain, it's helpful to focus on the things we know for sure.

- **Bear markets have ended.** Every bear market in history has eventually ended. But it can take time. If you leave the market now, you'll most likely miss the beginning of the next upturn.
- **Diversification matters.** From Enron to WorldCom, investors have faced major setbacks in the past few months. Some people who invested in these and other companies even lost their life savings. In a well-diversified portfolio, no single investment can have such a major impact.

Even with mutual funds, it's important to be diversified. Have you considered bond funds in addition to stock funds for your portfolio? Besides growth funds, have you included growth-and-income funds so income can help balance out market swings?

- **Experience counts.** In this type of environment, the challenge is to ignore all the noise and stay focused on what's really important — finding good companies and investing for the long term.

It helps to entrust your money to professionals who have managed investments for 20, 30, or even 40 years and have gone through market downturns before. Your American Funds portfolio counselors have an average of 22 years of investment experience.

- **Mistakes can be corrected.** The accounting scandals and questionable business practices of a few individuals and firms have been headline news for months. Bringing these abuses to light allows lawmakers, regulators, boards of directors and individual business people to begin taking action to strengthen the system against future abuses.

### **Setting realistic expectations**

When the stock market was booming in the late 1990s, many investment professionals worried that investors' expectations had become unrealistic. The prospect of a 20% rise in stock prices every year was simply not reasonable, especially when the economy was growing at only around 4% a year.

Over a longer period — the past 75 years through June 30, 2002 — the market, with all its ups and downs, has risen an average of 10% a year (though this includes the extended and unprecedented bull market of the '80s and '90s). As you plan your goals, it's important to keep in mind that 10% is an average. There may be times when returns are lower, especially through a prolonged downturn.

### **The value of good advice**

In the end, what should matter most are your individual goals, especially the goals you've set for retirement. This may be a good time to meet with your financial adviser to make sure you're on the right path.

<sup>1</sup> We use Standard & Poor's 500 Composite Index as a way of measuring the market.

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