

Coping With Volatile Markets: Six Tips for Alleviating Anxiety

These may be trying times for some investors, but it's a time when you can become a better informed and more disciplined investor.

Volatility, or wide, rapid swings in equity prices, is a natural part of investing. These price movements may seem more exaggerated when the media focuses on other economic issues, such as credit problems or the declining housing markets. As the chart below shows, the worst 12-month stock market declines historically have been followed by periods of even greater recovery.

12 Months Ended	Trailing 12-Month Return	Next 1-Year Return	Next 5-Year Return	Next 10-Year Return
Sept. 1974	-38.9%	+38.1%	+16.8%	+15.6%
Sept. 2001	-26.6%	-20.5%	+7.0%	—
March 2003	-24.8%	+35.1%	+11.32%	
May 1970	-23.3%	+34.7%	+7.3%	+8.2%
Aug. 1988	-17.8%	+39.0%	+15.8%	+17.0%
Oct. 1962	-14.9%	+35.3%	+14.3%	+10.6%
July. 1982	-13.4%	+59.4%	+29.7%	+19.2%
Sept. 1966	-12.0%	+30.6%	+8.7%	+ 6.9%
Dec. 1957	-10.8%	+43.4%	+13.3%	+12.8%
Sept. 1990	-9.3%	+31.3%	+17.2%	+19.4%

Source: Ibbotson Associates (Demonstration of the U.S. Stock Market)

- The trailing 12-month returns were sorted from worst to best. Adjacent 12-month periods were not considered. As a result, the 12 months ended September 1974 had the lowest return in the data set, so the 12-month periods that overlapped with September 1974 were not considered.
- The trailing 12-month returns are compounded total monthly returns for the S&P 500 as reported by Ibbotson Associates. The 5- and 10-year returns are annualized total returns. Investors cannot invest directly in an index.
- This chart demonstrates historical results. There is no guarantee of future positive returns after a prolonged stock market downturn.

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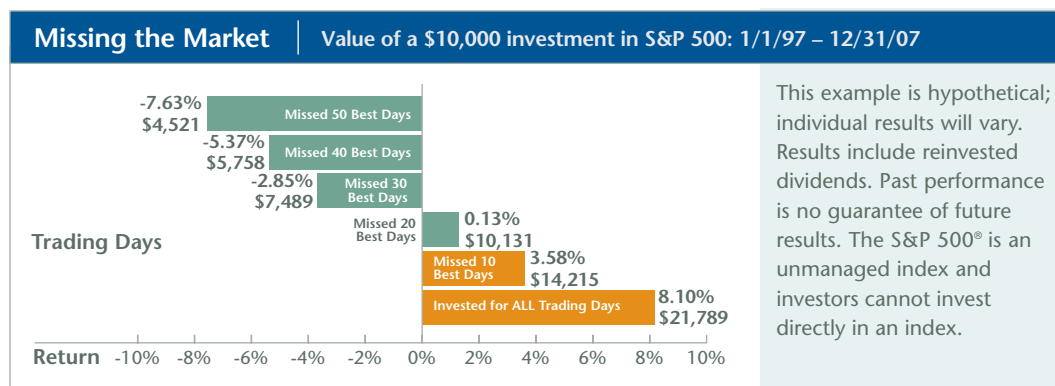
Here are six tips to help cope with challenging market environments:

1. Stay in the Market

When you sell an investment, you can increase your chances of missing the major market movements that signal the start of a longer recovery. Many of these major upside moves can happen quickly, often in just a few days. To avoid missing these key days, you may want to consider staying invested and avoid panic selling. Consider this hypothetical example as illustrated in the following chart:

An individual who was invested in the S&P 500 from January 1, 1997, until December 31, 2007, would have turned a \$10,000 investment into \$21,789 for an average annual return of 8.10%. Alternately, an investor who panicked and sold their positions during this same period and missed the 10 best trading days in this period would have seen their return fall from 8.10% to 3.58%.*

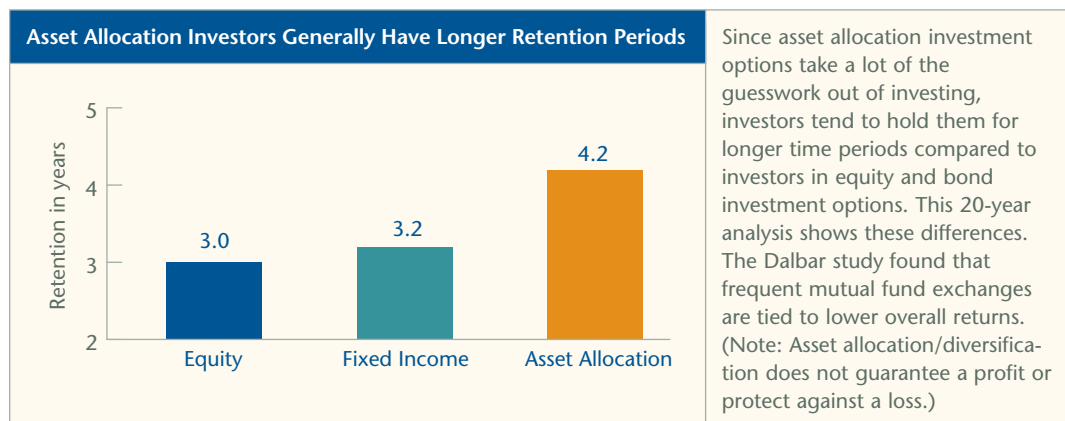
The simple lesson: you may want to consider staying invested since no one can predict when the market will experience its best days.



Source: Ned Davis Research, Inc.

2. Invest for the Long Term

Research shows the longer an investor held their investment position, the greater their returns.* Of the three types of investments studied (stock funds, bond funds, and asset allocation investment options), the average investors in asset allocation funds held their investment options the longest (an average of 4.9 years) over the five time periods studied (1-, 3-, 5-, 10-, and 20-years). As a result, these investors successfully weathered one of the most severe market declines in history (2000-2002).



Source: Dalbar Quantitative Analysis of Investor Behavior, 2007

The average investor refers to the universe of all mutual fund investors whose actions and financial results are restated to represent a single investor. This approach allows the entire universe of mutual fund investors to be used as the statistical sample, ensuring ultimate reliability.

*Dalbar's 2007 Quantitative Analysis of Investor Behavior study

3. Diversify the Portfolio

Another important strategy is to diversify the portfolio. According to the Dalbar study, investors guess incorrectly about the market's direction 75% of the time.

Diversification is the process of spreading investments across a number of different types of investment options, as well as in different styles and market capitalizations of equities and bonds. Diversification enhances the benefits of asset allocation so investment balances are less affected by short-term market swings than they would be if you invested in a single asset class.

Numerous academic studies have found that asset allocation is responsible for over 90% of a portfolio's performance variability over time.*

If you are an investor who is nearing retirement, consider consulting your financial professional or a representative of the Principal Financial Group® about solutions that can help minimize losses and offer diversification for short-term investment options.

Note: Asset allocation/diversification does not guarantee a profit or protect against a loss.

4. Consider Asset Allocation Portfolios

Historically, business cycle contractions last about one-sixth as long as expansions.** While no one knows when the current decline will end, now may be a good time to re-evaluate your risk tolerance.

If you want a professionally managed investment option to handle this complicated task, **consider using target-date and target-risk asset allocation portfolios.** These investment options are specifically designed to match your risk tolerance or projected retirement date with an appropriately diversified portfolio.

For example, a target-risk lifestyle investment option is based on a person's risk tolerance preferences and can offer 12 to 16 separate asset classes in one investment. Similarly, the family of target-date lifestyle investment options offer asset allocation solutions based on an investor's future retirement date. Both target-date and target-risk investment options are designed and managed based on the established principles of portfolio diversification and risk management.

5. Remember the Benefits of Long-Term Investing

The bottom line: It takes discipline to keep today's bad news from derailing your long-term investment goals. However, when you continue to pursue your long-term investment goal you should recognize that successful investing is a marathon, not a sprint.

Keep in mind that both separate accounts and mutual funds are subject to the typical risk of investing, including but not limited to, market risk and the risk associated with the underlying securities in the portfolio.

Sources:

* G.P. Brinson, L.R. Hood and G.L. Beebower, "Determinants of Portfolio Performance," Financial Analysts Journal, January/February 1995.

** George Hildebrand, *Business Cycle Indicators and Measures*, Probus Publishing, 1992.

6. Stay in Touch with Your Financial Professional

News headlines can understandably make you nervous. However, to keep these developments in perspective while staying focused on your personal situation, **remember to stay in touch with your financial professional or a representative of The Principal® by calling 1-800-547-7754.** They are familiar with your personal situation and can provide the information you need to help you stay on track to reach your retirement savings goal.

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While these six tips can help you navigate through periods of market volatility, one thing to remember is that the stock market is a collective gauge of investor sentiments, negative and positive. It is the investor's task to not be distracted by these emotional moves. These six tips can help you stay focused.



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