Investing

98% stayed the course

Steve Utkus
August 11, 2011

I read the headlines, same as you. Investors are panicking. During the drive in to work today, I listened to a radio business show. A correspondent talked about the flood of selling and the deep sense of fear in financial markets. Another expert spoke about investors cashing out and moving assets to the sidelines.

Yes, it is true that in volatile markets, there is more trading. And what is true in the markets is also true at Vanguard. In our 401(k) business, for example, the number of participants making a change in their portfolios, and the dollars they were moving, jumped five- or six-fold on the worst days for stocks. A similar pattern emerges in our retail business. These statistics are the source for headlines about shifting investor sentiment.

To put this into perspective, however, consider this: In the first eight trading days of August, including two of the most volatile days since 2008, just under 2% of 401(k) participants at Vanguard made a change to their portfolios. In other words, over 98% stayed the course. Ninety-eight percent took no action. Ninety-eight percent took the long-term view.

Now it's true, if choppy markets continue, we'll see this number inch down. Ninety-eight percent of participants staying the course might become 97%. In October 2008, during the depths of the financial crisis, it became 96%—in other words, 4% of participants made a move. But the fact remains: those trading are a very small subset of investors.

When markets are falling, trading activity jumps, sometimes by large amounts. And we are somehow misled into believing that "everyone" is dumping stocks and getting out of the market. But overall, as our 401(k) data show, most investors have a long-term perspective and don't react to falling markets.

What's more, we know from our research that during a financial crisis, few investors actually cash out their entire portfolios. Yes, there is always a small fraction of investors—3% in the recent financial crisis——who sell everything, so there's always someone to interview about getting out of the market. But they aren't typical investors. Most investors making a change in a falling market shift a small amount away from equities; others actually buy stocks as the market is falling.

This is exactly the perspective to keep in mind if market turbulence continues.

Note: All investments are subject to risks.

Steve Utkus

Steve Utkus oversees the Vanguard Center for Retirement Research, which studies many aspects of retirement in America—from how individuals start saving and investing in the early part of their careers, to how they prepare for actual retirement, to how they spend down their savings once they're retired. Steve is particularly interested in behavioral finance—the study of how rational decision-making is influenced by human psychology. His current research interests also include the ways employers design retirement programs, and new developments in retirement in other countries. Steve holds a B.S. from the Massachusetts Institute of Technology and an M.B.A. from the University of Pennsylvania's Wharton School. He began working at Vanguard in 1987 and has served as director of the Center for Retirement Research since 2001. Steve is also a visiting scholar at the Wharton School.

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