Investor Education Series

The Cost of Recovery

Stocks can play an important role in an investor's portfolio but recovering from steep stock declines can be challenging because any gains will be made on a diminished base of assets. Getting back to where you started may take considerable time or require greater risks than you may be comfortable with. In the example below, $1,000 invested at the stock market high in October 2007 lost 57% of its value through March 2009. Despite a 59% stock recovery through end of January 2010, recovering the initial $1,000 will require an additional 47% gain. Diversifying among assets less correlated to stocks may help head off severe losses to an overall portfolio.*

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*Of course, diversification does not ensure a profit or protect against loss in a declining market.

Source: Bloomberg. The Standard & Poor's 500 Stock Price Index is an unmanaged index generally considered representative of the U.S. stock market as a whole. The latest high of $735 shown on 1/9/10, was as of 1/31/2010. The returns shown are for a relatively short period of time. From 1/31/79–1/31/10 $1,000 invested in U.S. stocks (as represented by the S&P 500 Index) would have grown to $27,850 with dividends invested.

A word About Risk: All investments are subject to risk, whether the risk of loss or the risk of not being able to keep pace with the cost of living. Fixed income investments may decline in value if interest rates rise. Equities can decline in value based on factors related to the stock-issuing company, it's industry or market factors unrelated to the company or the industry.

Past performance is not a guarantee of future results. This chart is not indicative of past or future performance of any Allianz Global Investors product.

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