



# The benefits of staying invested

## THE CUSHION EFFECT

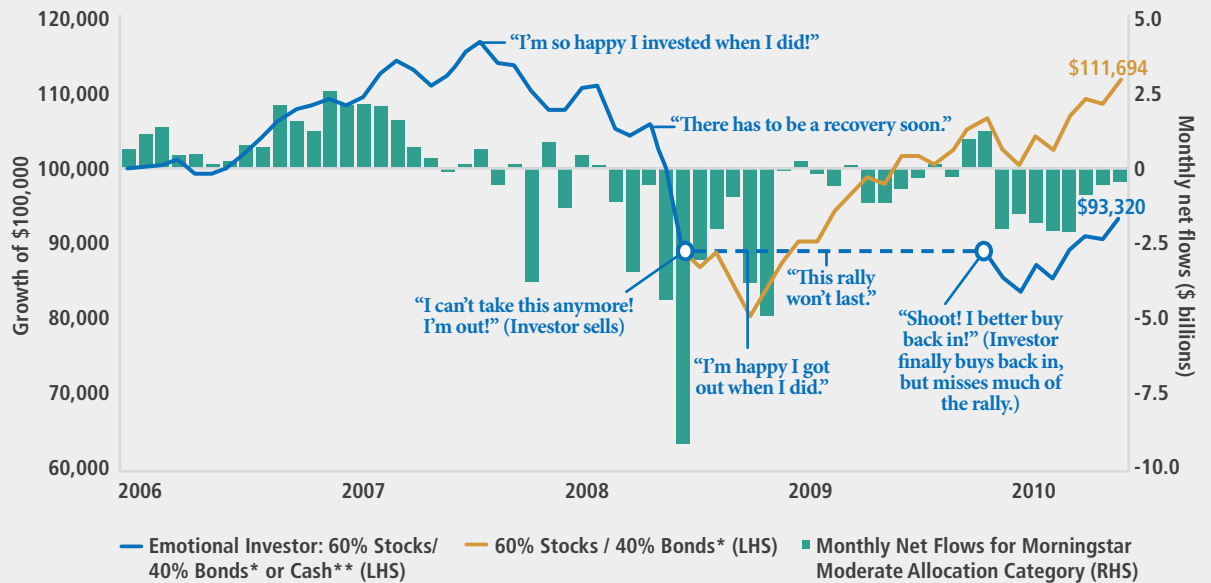
Most investors will be familiar with the concept that it is “time in the market, not timing the market” that generates solid long-term returns. But, many find it hard to stay the course when performance worsens, resulting in a detrimental outcome for their portfolio.

Take, for example, an investor with a portfolio of stocks and bonds worth \$100,000 at the start of 2006. For approximately 18 months, she would have been pleased as her portfolio grew to more than \$111,000. However, her outlook would have changed when markets began to turn in mid-2007.

How she chose to respond at this point in time would have had a big impact on her investment results. Here are two scenarios:

1. Our investor holds her nerve for about a year before selling out when her portfolio drops to around \$90,000. While sitting on the sidelines waiting for a recovery, she fails to pick the start of the upswing and ends up reinvesting her \$90,000 late in the rally. By mid-2010, her holding has recovered to around \$93,000.
2. Our investor holds her nerve through the entire period and never sells down her stock. By the time mid-2010 rolls around, her holding has recovered back to its former high of \$111,000.

*When markets are volatile and performance is weak, investors who hold their nerve may recover their losses more quickly than those who sell out and try to time their re-entry.*



January 2006 to December 2010. Source: Morningstar, Bloomberg, PIMCO. **Past performance is not a guarantee or a reliable indicator of future results. Hypothetical example for illustrative purposes only. Not indicative of the past or future performance of any PIMCO product.**

\* Stocks are represented by S&P 500 Index. Bonds are represented by Bloomberg Barclays U.S. Aggregate Index. It is not possible to invest in an unmanaged index.

\*\* These results are based on hypothetical modeling and are intended for illustrative purposes only. Emotional Investor is assumed to move to cash on 10/31/2008 and back to 60% Stocks / 40% Bonds on 04/30/2010.

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