
The Tale of 10 Days

For years, conventional investment wisdom encouraged investors to stay invested over time and avoid market timing strategies so they wouldn't miss out on the market's top performance days. Investors were warned that missing the "10 best days" would drag down the value of their portfolios. But that idea is only part of the story – it glosses over the risks of staying invested during the market's worst days. As it turns out, over the past 81 years, the market's worst days had a far greater effect on portfolio returns than the market's best days. Clearly, it's time to rethink the conventional wisdom of pursuing returns without considering the risks involved.

Key points

1

Missing market extremes – both the highs and the lows – can help improve overall performance and reduce volatility, but trying to time the highs and lows is virtually impossible.

2

Hitting the 10 best performance days likely means hitting the 10 worst.

3

Protecting your portfolio from substantial declines is key because capturing positive performance may not be enough to overcome losses, depending on your investment timetable.

4

Spikes in investment performance are no reason to increase your personal risk tolerance – the real risk is not meeting your financial goals.

Dickensian dilemma

It was the best of times, it was the worst of times ... Charles Dickens wasn't thinking of the stock market when he wrote his famous line, but that message can serve as a good reminder for investors: There are two sides to every story.

The market's "best of times" – the S&P 500 Index's 10 best performing days over 81 years (from Jan. 3, 1928, to March 31, 2009) – yielded an average daily return of 11.68%. The market's "worst of times" – the 10 worst performing days across those same 81 years – provided an average daily return of -10.84%.

The problem with focusing on only half the story is that it emphasizes the effects of the best days while ignoring the effects of the worst. So what lesson can investors take away from these numbers? Let's take a look at the whole story.



Bottom Line

- Returns decreased by approximately two-thirds if you missed the best performance days.
- Returns more than tripled if you missed the worst performance days.
- Returns increased overall and volatility decreased if you missed the best and worst days.

1 Imperfect 10

During those 81 years, a \$1 investment would have grown to \$45.18 under a buy-and-hold strategy that captured the performance of each and every day – including the 10 best and 10 worst days.

Obviously, missing positive performance won't help improve returns. If you missed the 10 best days of market performance in those 81 years, \$1 would have grown to only \$14.99, about one-third of the growth for the entire period.

Looking at the whole story, however, shows us that missing the 10 worst performing days improves returns dramatically – a \$1 investment would have grown to \$143.47, more than tripling the overall \$45.18 growth from Jan. 3, 1928, to March 31, 2009, and underscoring the importance of downside risk management.

What if we avoided the extremes altogether? Missing the 10 best and 10 worst days would have resulted in a return of \$47.59 on a \$1 investment. That's \$2.41 more than the returns of a buy-and-hold strategy with less volatility.

Telling Days

Days	Growth of \$1	Cumulative Return (%)
Capture 10 best and worst	45.18	4,418
Miss 10 best	14.99	1,399
Miss 10 worst	143.47	14,247
Miss 10 best and worst	47.59	4,659

Sources: Bloomberg L.P., Invesco Aim

Bottom Line

- The best and worst performance days have historically often occurred in proximity.
- It's virtually impossible for investors to successfully predict market movement to capture positive performance and avoid negative performance.

2 The best and worst of times

At this point, you may be thinking that the best course of action is to simply avoid the market's worst days. But could you have predicted when those would occur? During the 81 years noted above, the 10 best and 10 worst days typically fell in proximity to each other, making it extremely difficult – if not impossible – to avoid the worst while benefiting from the best.

Not surprising, all of the worst performance days hit during bear markets. But so did seven of the 10 best performance days. This characterizes the extreme volatility investors endured during market corrections.

Let's focus on just one three-day period as an example. In 1929, Oct. 28 to Oct. 30 brought investors two of the 10 worst days (-12.94% and -10.16%) and one of the 10 best days (12.53%) of our 81-year period. During that kind of whiplash volatility, it's highly unlikely that investors could have predicted the situation and taken action in time to protect their portfolios.

Even in times that aren't quite that volatile, no one really knows what the market will do from one day to the next, so a portfolio strategy that hinges on pinpoint trades isn't the ideal answer.

The Best and the Worst

Since 1929, the S&P 500 Index's highest and lowest days for performance have typically occurred during bear markets and in proximity to each other, making it virtually impossible to experience only the best days.

10 Best Days		10 Worst Days	
Date	Return (%)	Date	Return (%)
10/30/1929	12.53	10/28/1929	-12.94
06/22/1931	10.51	10/29/1929	-10.16
10/06/1931	12.36	11/06/1929	-9.92
08/08/1932 ¹	9.26	10/05/1931	-9.07
09/21/1932	11.81	07/20/1933	-8.88
03/15/1933 ¹	16.61	10/18/1937	-9.12
04/20/1933 ¹	9.52	09/03/1946	-9.91
09/05/1939	11.86	10/19/1987	-20.47
10/13/2008	11.58	10/15/2008	-9.03
10/28/2008	10.79	12/01/2008	-8.93

¹ Did not occur in a bear market.
Source: Bloomberg L.P.

Bottom Line

- As a portfolio loses value, the needed breakeven returns grow substantially.
- Depending on financial goals and timelines, portfolios may not recover enough from a market low in time to reach those goals, even with help from one of the best days.

3

Too little, too late

We now know the market's worst days have had a bigger effect on market returns than the best days. Let's examine why, and what that means for investors who don't plan on staying in the market for eight decades.

As a portfolio loses value, the needed returns to break even – that is, to make up the losses – grow substantially. For example:

- A 10% loss requires an 11% gain to break even.
- A 25% loss requires a 34% gain to break even.
- A 50% loss requires a 100% gain to break even.

Historical data illustrate how difficult it can be to claw back from major losses. If that same dollar we discussed earlier had been invested on Jan. 3, 1928, it would have grown to \$1.80 by Sept. 6, 1929.

The bear market that occurred from Sept. 7, 1929, to July 8, 1932, saw the market fall 86.2%. That shrinks our \$1.80 to about 25 cents.

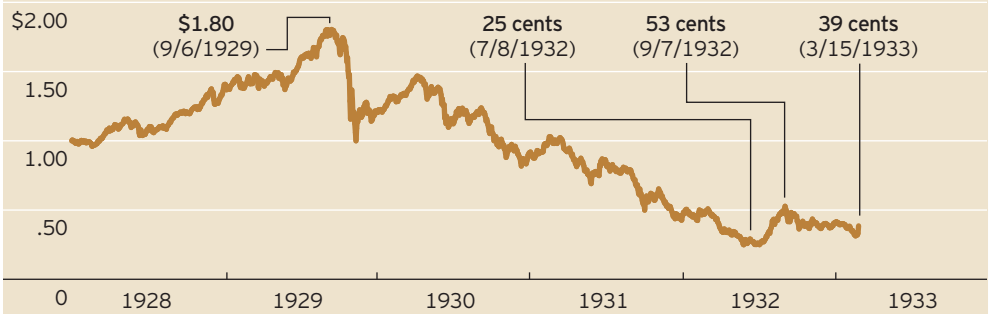
Fortunately, that 25 cents more than doubled to about 53 cents by Sept. 7, 1932, just two months later. But a 40.6% drop ending on Feb. 27, 1933, leaves us with a total of about 31 cents.

Now comes the S&P 500's best performing day of our 81-year history – delivering a whopping 16.61% return on March 15, 1933. Even at the end of that market day, we've only got about 39 cents in our pocket. One fantastic day couldn't make up for all of the previous losses – just imagine what your account balances could have looked like if you were nearing retirement or a retiree already using your assets in 1933.

We know that at the end of 81 years, all the market's ups and downs would result in a return of \$45.18 for that \$1 invested in January 1928. But who has 81 years to invest? Depending on your investment time horizon, it may be impossible to recover from the losses of a bear market.

Is It Enough?

Depending on your investment goals and timetable, you may not have enough time to recover from market lows – even with help from the best of days. For example, \$1 shrank to 39 cents from Jan. 3, 1928, to March 15, 1933, the S&P 500 Index's best performance day yet.



Sources: Bloomberg L.P., Invesco Aim

Bottom Line

- Approach your investments with an aim to minimize risk, not maximize returns.
- Align your portfolio with your risk tolerance and investment goals.
- Talk to your financial adviser to assure your plan will support your goals in every market.

4 Rethinking risk

The numbers show that relying on pinpoint trades isn't the most effective strategy – but depending on your time horizon, a buy-and-hold strategy may not work either. So what's an investor to do? Like all good stories, there's a moral to this one: Your first investment priority should be to minimize risk, not maximize returns.

And remember that individual risk isn't measured as much by volatility as it is by the potential to miss your investment goals. In other words, if your goal is retirement, your risk tolerance may be better defined by your ability to retire according to your plan than it is by your ability to tolerate a 20% swing in market performance. That means your financial plan should be designed first and foremost to meet your retirement goals, not to capture the market's "best of times."

Now may be a good time to talk to your financial adviser about your financial plan. Let him or her know that your focus is on achieving your financial goals in line with your personal risk tolerance so that you're comfortable with your investments during all market conditions. With that in mind, your adviser can ensure your investment story is written on your terms – not Wall Street's.

Consider the investment objectives, risks, and charges and expenses carefully. For this and other information about AIM funds, obtain a prospectus from your financial adviser and read it carefully before investing.

Note: Not all products, materials or services available at all firms. Advisers, please contact your home office.

The S&P 500® Index is an unmanaged index considered representative of the U.S. stock market. An investment cannot be made directly in an index.

This information does not reflect the performance of any specific AIM fund.

All data provided by Invesco Aim unless otherwise noted.

Invesco AimSM is a service mark of Invesco Aim Management Group, Inc. Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc., Invesco Aim Private Asset Management, Inc. and Invesco PowerShares Capital Management LLC are the investment advisers for the products and services represented by Invesco Aim; they each provide investment advisory services to individual and institutional clients and do not sell securities. Please refer to each fund's prospectus for information on the fund's subadvisers. Invesco Aim Distributors, Inc. is the U.S. distributor for the retail mutual funds, exchange-traded funds and institutional money market funds represented by Invesco Aim. All entities are indirect, wholly owned subsidiaries of Invesco Ltd.

It is anticipated that on or about the end of the fourth quarter of 2009, Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc., Invesco Aim Private Asset Management, Inc. and Invesco Global Asset Management (N.A.), Inc. will be merged into Invesco Institutional (N.A.), Inc., and the consolidated adviser firm will be renamed Invesco Advisers, Inc. Additional information will be posted at invescoaim.com on or about the end of the fourth quarter of 2009.