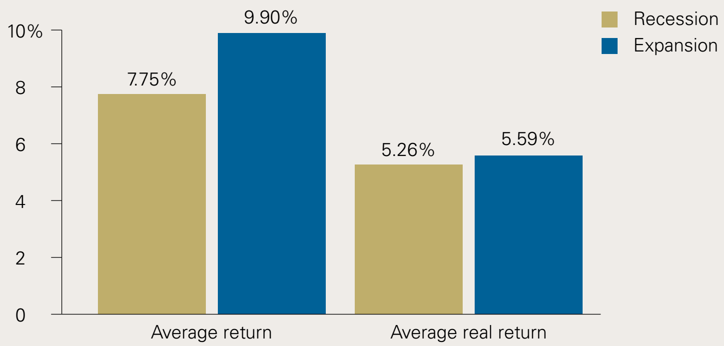
Vanguard

In boom times or bust, balance makes the difference

Similar returns in recessions and expansions

Average annualized returns for a 50% stock/50% bond portfolio in full U.S. recessions and expansions, 1926–2009



Note: Real returns were calculated using monthly nominal asset-class returns adjusted for inflation on the basis of monthly Consumer Price Index (CPI) data. We used both nominal and real monthly returns to calculate an annualized geometric return for the periods labeled either expansionary or recessionary by the National Bureau of Economic Research (NBER). For U.S. bond market returns, we used the Standard & Poor's High Grade Corporate Index from 1926 to 1968, the Citigroup High Grade Index from 1969 to 1972, the Lehman Brothers U.S. Long Credit AA Index from 1973 to 1975, and the Barclays Capital U.S. Aggregate Bond Index thereafter. For U.S. stock market returns, we used the Standard & Poor's 90 from 1926 to March 3, 1957; the S&P 500 Index from March 4, 1957, to 1974; the Dow Jones Wilshire 5000 Index from 1975 to April 22, 2005; and the MSCI US Broad Market Index thereafter. The hypothetical 50% stock/50% bond portfolio is rebalanced each month. This figure includes returns only through June 2009 (the end of the 2008–2009 recession) because the time frame of the subsequent expansionary period is not yet determined.

Source: Vanguard calculations using data from the U.S. Bureau of Labor Statistics, the NBER, and index returns.

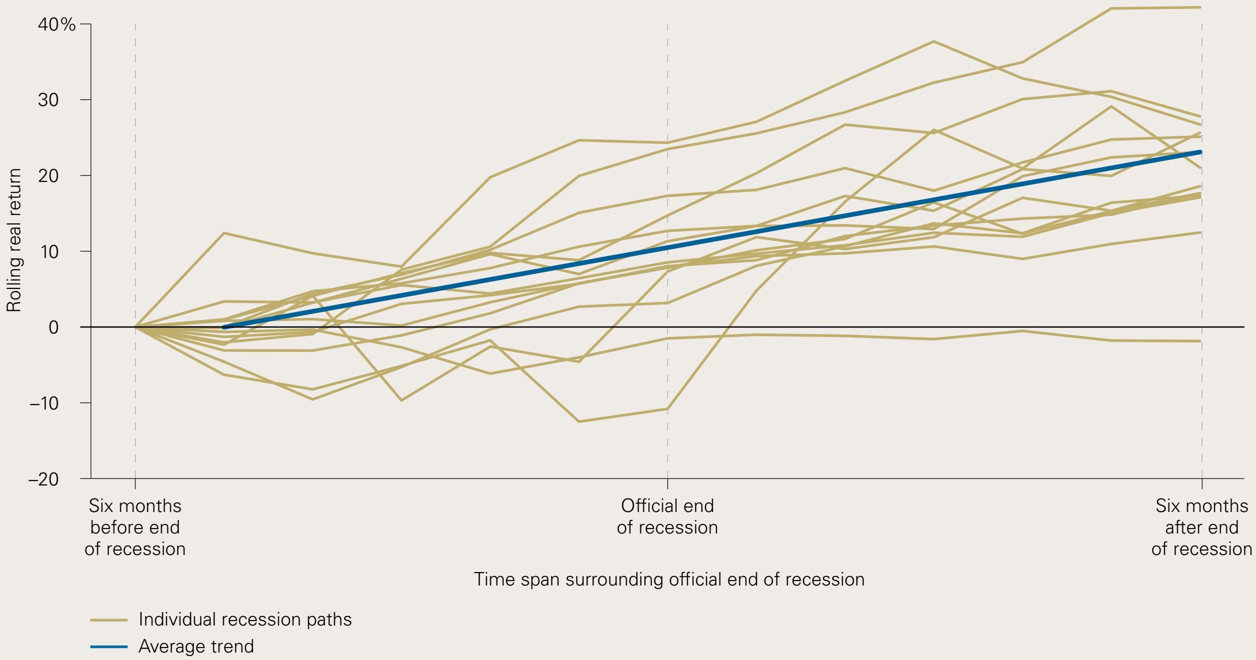
Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

- During periods of economic distress, it might be tempting to shift to a more "defensive" portfolio. But the historical data suggest the shift might not be worthwhile.
- The figure to the left shows the average annualized returns—both nominal (not inflation-adjusted) and real (inflation-adjusted)—for a theoretical balanced portfolio using monthly data from 1926 through June 2009, the end of the last recession.
- The annualized returns on such a balanced portfolio over that span have been similar in times of economic recession and expansion.
- This is particularly true of the inflation-adjusted returns, because inflation tends to be higher during periods of stronger economic growth.

(continued on reverse)

Balanced portfolios managed to weather past recessions

Rolling real returns for a 50% stock/50% bond portfolio near the ends of past recessions



Note: The 1980 recession is not displayed because it lasted only six months. Rolling real returns are the product of all monthly returns from one point in time to another. Rolling returns in this figure are not annualized. Real returns were calculated using monthly nominal asset-class returns adjusted for inflation on the basis of monthly CPI data. The hypothetical 50% stock/50% bond portfolio is rebalanced each month. For U.S. bond market returns, we used the Standard & Poor's High Grade Corporate Index from 1926 to 1968, the Citigroup High Grade Index from 1969 to 1972, the Lehman Brothers U.S. Long Credit AA Index from 1973 to 1975, and the Barclays Capital U.S. Aggregate Bond Index thereafter. For U.S. stock market returns, we used the Standard & Poor's 90 from 1926 to March 3, 1957; the S&P 500 Index from March 4, 1957, to 1974; the Dow Jones Wilshire 5000 Index from 1975 to April 22, 2005; and the MSCI US Broad Market Index thereafter.

Source: Vanguard calculations using data from the NBER and index returns.

- The figure to the left illustrates that balanced and diversified investing has managed to weather past recessions because of two complementary forces at work.
- First, as part of a "flight-to-safety" effect, bonds tend to outperform stocks when a recession is imminent.
- Second, as part of a "leading indicator" effect, stock prices tend to decline before a recession officially begins and to rise before it officially ends.
- Since 1926, 10 of the 20 highest-returning months for the U.S. stock market have occurred during recessions.
- Regardless of the economic environment, it's important for you to have an asset allocation that matches your risk tolerance and long-run portfolio objectives. Any changes you might make in response to headlines and economic projections should be considered very carefully.

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For more information on Vanguard funds and ETFs, contact your financial advisor to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.

All investments are subject to risk, which may result in the loss of principal. Bond funds contain interest rate risk, the risk of issuer default, and inflation risk. Diversification does not ensure a profit or protect against a loss in a declining market.

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