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'Mattress' investors missed rebound

By Anya Khalamayzer

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If the financial downturn scared people into holding cash or other capital-preserving investments during the past few years, they should be aghast at seeing what they missed out on as the equity markets rebounded.

A recent revisiting of a 2009 study by the National Center for Policy Analysis showed that fearful investors who liquidated their equity holdings during the heart of the recent economic downturn would have been far better off staying in the market. Many investors felt the need to stash their money away in a bond fund, a money market account or under the mattress, so to speak, but this strategy precludes the opportunity to buy shares at low prices.

What's more, unless investors got back into the market by March 2009, when the S&P 500 posted its biggest 10-day gain since 1938, they probably locked in a loss.

A stock index fund outperformed all alternatives even during the tumult, as the Dow Jones Industrial Average gained 77% between March 2009 and this past January.

The updated report also examined what $100 monthly 401(k) deposits made between Dec. 1, 2008, and Dec. 31, 2010, would have yielded.

A non-tax-deferred contribution into a traditional money market fund would have returned 0.71% after-tax for a $21 gain; a contribution into a tax-deferred-bond fund would have returned 5.39%, or $140; and a tax-deferred contribution to an S&P 500 fund would have returned nearly 26%, or $783.

“Panic stock selling is a normal reaction by investors when markets turn jittery, but it can cost investors thousands of retirement dollars,” said Pam Villarreal, a senior policy analyst at the NCPA. “If investors do sell, even if it's to stash their cash under the mattress, the sooner they return to stocks, the more money they will have for retirement.”