American Funds®

Three lessons to learn from market volatility

What the current recession can teach us about diversification, staying in the market, and asset appreciation.

Lesson 1: Keep a long-term perspective.

We don't know if the current recession will be similar to past recessions or how long it will last, but we do know that over longer, more meaningful periods, the markets have recovered. The table below shows how the Standard & Poor's 500 Composite Index bounced back after the past 10 recessions:

S&P 500® total returns after recession lows

Date of S&P 500 low during recession*	S&P 500 returns		
	1 year later (total returns)	5 years later (average annual total returns)	10 years later (average annual total returns)
June 13, 1949	53%	24%	22%
September 14, 1953	45%	22%	17%
October 22, 1957	36%	11%	13%
October 25, 1960	35%	15%	8%
May 26, 1970	49%	9%	9%
October 3, 1974	44%	17%	16%
March 27, 1980	44%	19%	18%
August 12, 1982	66%	32%	20%
October 11, 1990	34%	18%	19%
September 21, 2001	-11%	8%	N/A
Mean	40%	18%	16%
Median	44%	17%	17%

*As defined by the National Bureau of Economic Research (NBER).
These results assume that dividends were reinvested in the S&P 500, an unmanaged index.

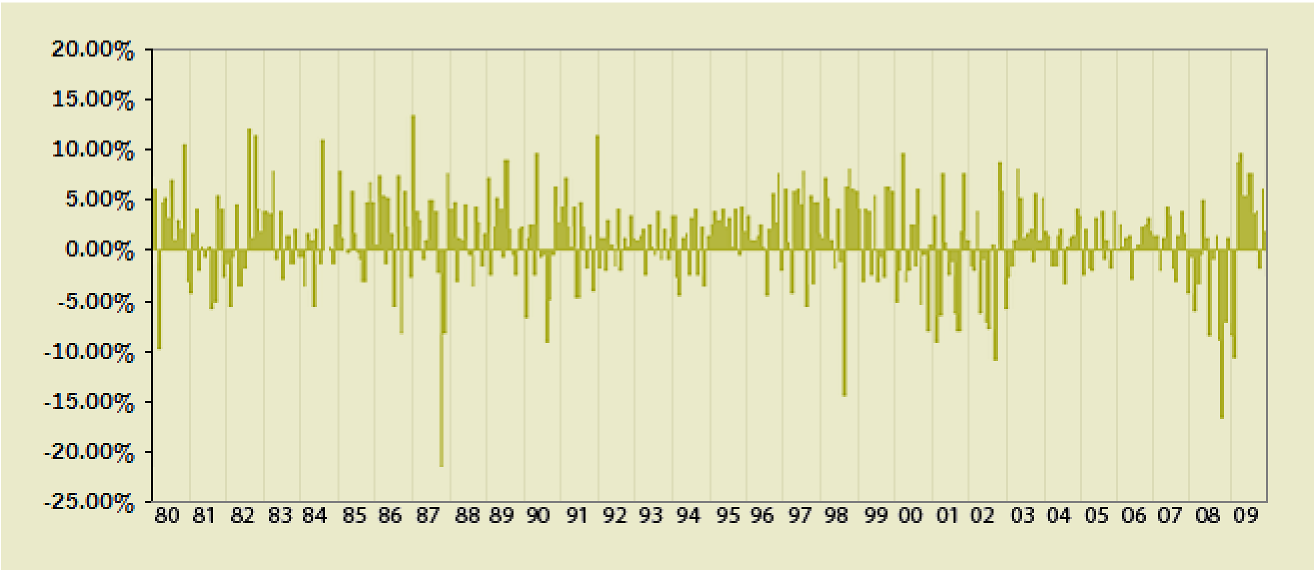
Lesson 2: Stay invested.

It's not easy to hold steady in a downturn, especially when it seems like the market decline will continue. But if your investment goals haven't changed, it's likely that your strategy shouldn't change.

Take a look at the charts below that show a hypothetical $1,000 investment from two perspectives.

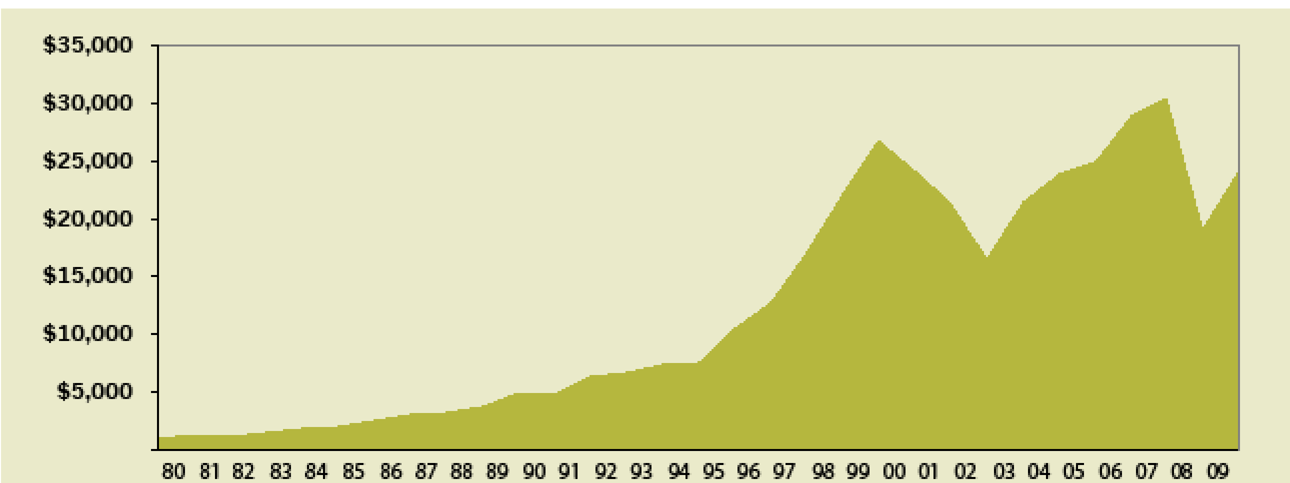
This chart shows the monthly total returns of the S&P 500 over a 30-year period. By only showing the ups and downs month to month, the chart emphasizes the erratic nature of market activity.

Monthly total returns of a hypothetical $1,000 investment (12/31/79 - 12/31/09)



However, when you take the long view and look at the annual growth of the same 30-year $1,000 investment, an upward trend is revealed.

Annual growth of a hypothetical $1,000 investment (12/31/79 - 12/31/09)



Returns for the S&P 500, an unmanaged index, assume all dividends are reinvested but do not reflect sales charges, commissions or expenses. Figures shown are past results and are not predictive of results in future periods.

Lesson 3: No one can predict when market declines or rallies will happen.

It's easy in hindsight to say that the market was overvalued and due for a correction. But no one has been able to predict market declines or rallies consistently. That means that trying to jump in — or jump out — at the right time is risky.

Consider what happened in January 1973. A *New York Times* poll of eight market authorities predicted that the market would "move somewhat higher" in the future. Instead, the Dow industrials proceeded to decline 45% over the next 23 months. Then, although almost no one predicted it, the Dow rose 53% from its low in December 1974 to its high in July 1975. If you had tried to move in and out of the market based on predictions, you probably would have missed the best times to actually do so.

Market declines can be painful, but it's important to keep your perspective and stay focused on your long-term goals. As always, talk with your financial adviser if you have questions about whether these goals may have changed.

Investors should carefully consider the investment objectives, risks, charges and expenses of the American Funds. This and other important information is contained in each fund's summary prospectus and/or prospectus, which can be obtained from your financial professional and should be read carefully before investing.