

# Guide to market recoveries

How to navigate through a difficult segment of the market cycle



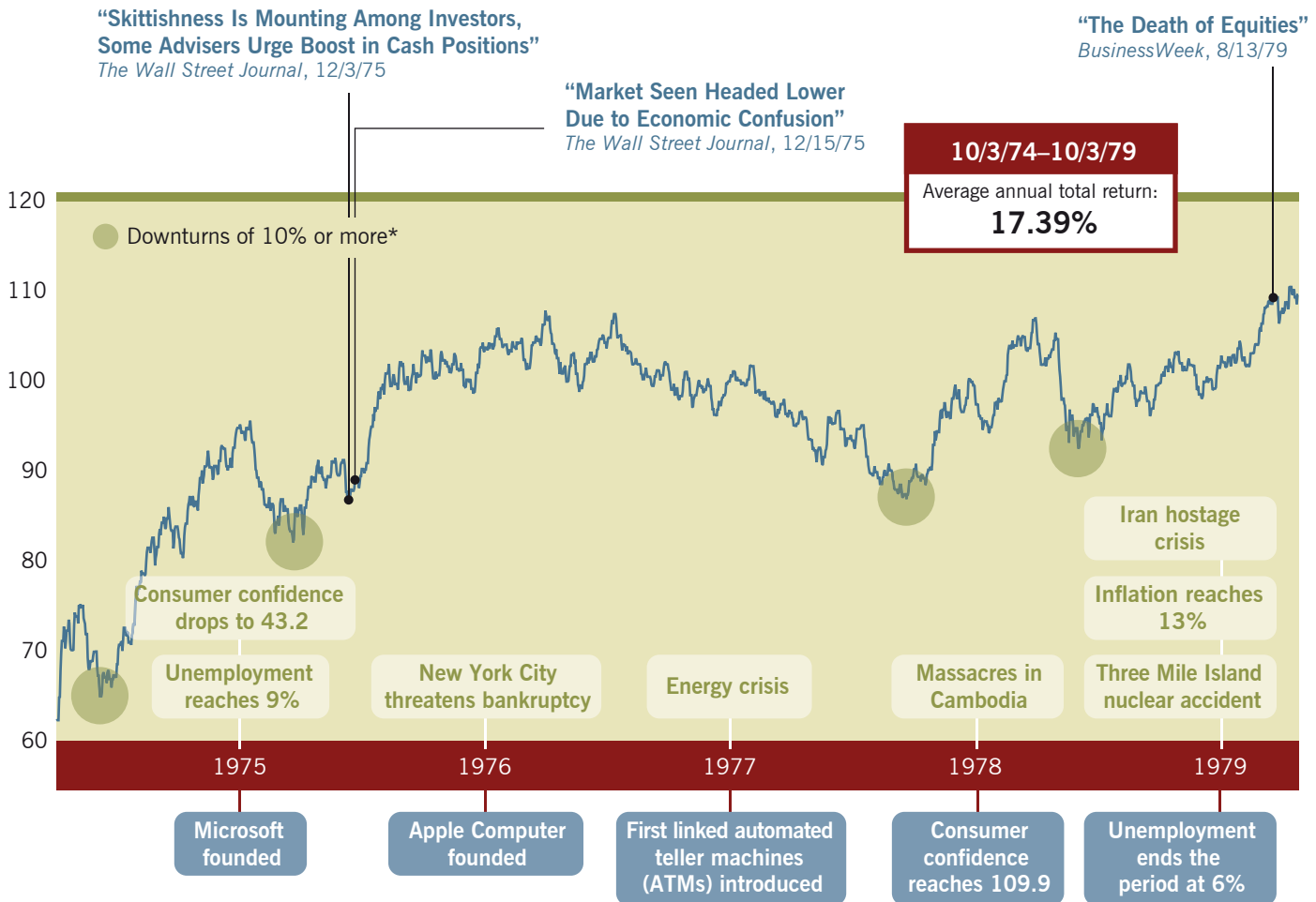
# 1 Recoveries don't *feel* good

After significant declines, the markets have typically become unbearably rocky — causing investors to want to react to every bump along the way. Bearish headlines, troubling events and disappointing economic news fueled feelings of uncertainty. But while these times have been remembered as extraordinarily difficult, they also have been times of opportunity. And, as these charts show, investors who found the courage and conviction to stay the course were rewarded with attractive results.

To help illustrate how these times can *feel*, we've chosen to highlight two very different five-year periods after a market decline. The first is the five years after the dramatic 1973–74 decline when the recovery was frustratingly slow due to tepid economic and market conditions. In contrast, the market

recovered more quickly after the sharp 1987 decline, but investors had to weather two more downturns during the five-year period. As different as each of these periods may have been, investors had to look past similar headlines and distractions in order to achieve strikingly similar results.

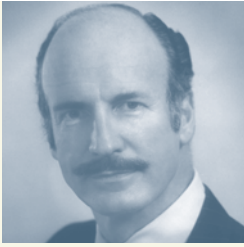
Daily index values and headlines for the five years after the S&P 500's 1/11/73–10/3/74 decline of 48.2%



The daily values for the charts on these two pages are based on the change in price of the companies in Standard & Poor's 500 Composite Index (the S&P 500). Daily values and declines exclude dividends and/or distributions. The index is unmanaged, and its results do not reflect the effect of sales charges, commissions or expenses.

**Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.**

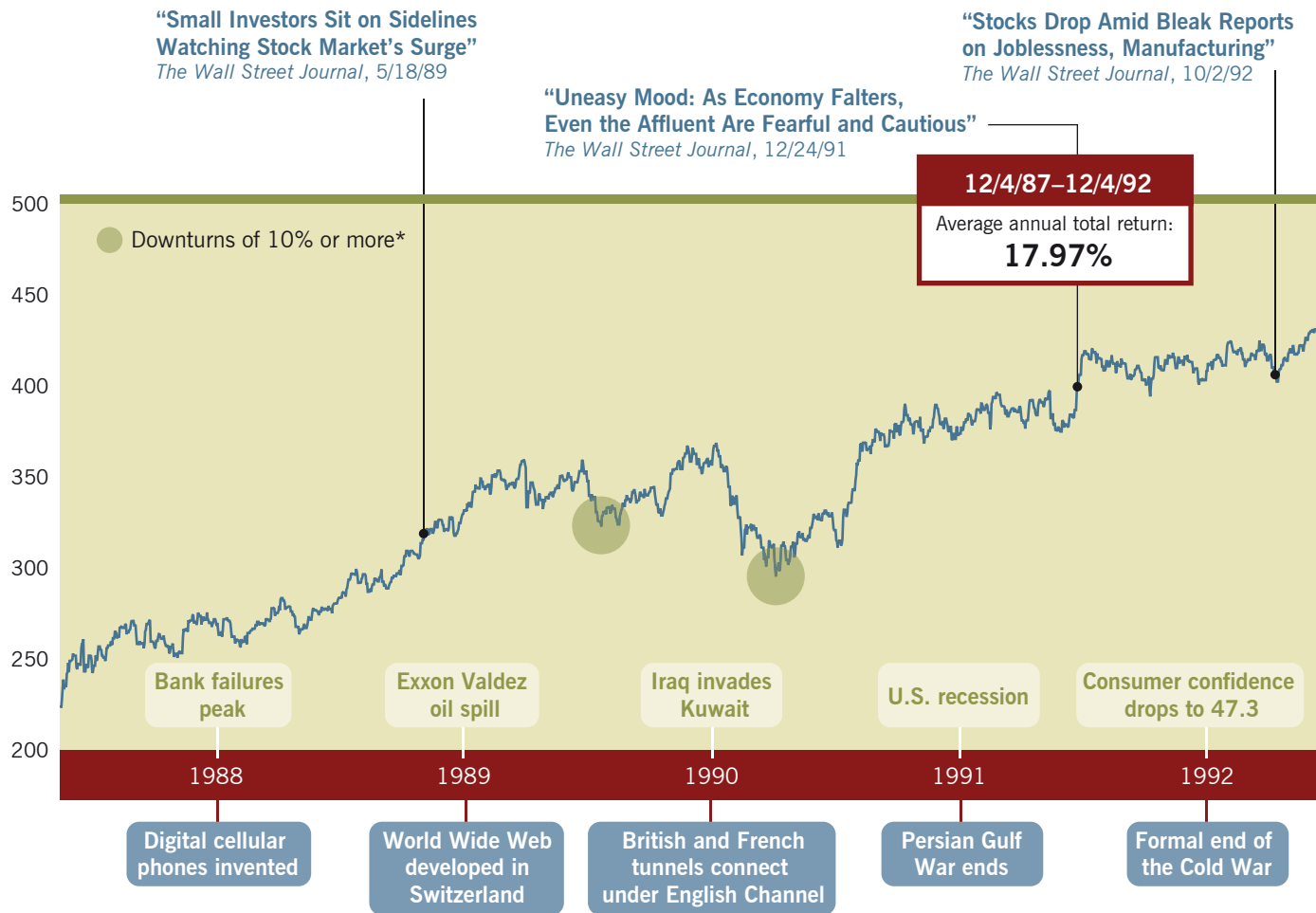
**Figures shown are past results and are not predictive of results in future periods.**



“One significant reason why there is such an extreme degree of bearishness, pessimism, bewildering confusion, and sheer terror in the minds of brokers and investors alike right now, is that most people today have nothing in their own experience that they can relate to, which is similar to this market decline.”

— Jim Fullerton, former chairman of The Capital Group  
November 1974

Daily index values and headlines for the five years after the S&P 500's 8/25/87–12/4/87 decline of 33.5%



\* Market downturns are based on a decline of about 10% or more in the S&P 500's value (excluding dividends and/or distributions) with 50% recovery after each decline.

# 2 | After past declines, there have been strong recoveries

Since the early 1930s, every decade has had at least one major decline of about 15% or more (excluding dividends and/or distributions) in the S&P 500. While the markets fluctuated after the declines, the declines were often followed by meaningful recoveries. Although there is no guarantee this will be repeated, after each of the market declines shown below (excluding the most recent decline):

- the average annual total return for the five-year periods after each decline was **positive** 100% of the time.
- a hypothetical \$10,000 investment in the S&P 500 would have at least **doubled** 12 out of 16 times.

Throughout the decades, significant market declines have been followed by five years of gains									
Periods of decline	Percent decline	12-month returns					Average annual total return for the 5-year period	Growth of a hypothetical \$10,000 investment during the 5-year period	Number of downturns during the 5-year period*
		<span style="color: #4F81BD;">■</span> Positive periods (68) <span style="color: #800000;">■</span> Negative periods (14)							
		1st year after low	2nd year	3rd year	4th year	5th year			
9/7/29–6/1/32	-86.22%	137.60%	0.52%	6.42%	56.68%	16.52%	35.93%	\$46,401	16
9/7/32–2/27/33	-40.60	105.43	-14.77	74.12	29.05	-32.50	21.57	26,554	11
7/18/33–3/14/35	-33.93	88.37	30.91	-37.51	25.94	-0.65	14.03	19,280	7
3/6/37–4/28/42	-60.01	64.26	8.96	31.08	32.19	-19.89	19.96	24,841	2
5/29/46–6/13/49	-29.61	52.74	20.95	20.33	3.38	27.04	23.90	29,195	2
1/5/53–9/14/53	-14.82	45.46	50.22	9.19	-1.41	12.76	21.54	26,525	5
8/2/56–10/22/57	-21.63	36.30	13.23	-1.44	32.52	-17.10	10.82	16,713	2
12/12/61–6/26/62	-27.97	37.42	21.12	5.10	7.56	9.57	15.57	20,617	3
2/9/66–10/7/66	-22.18	37.34	10.04	-7.37	-3.08	18.89	10.04	16,132	5
11/29/68–5/26/70	-36.06	48.96	14.56	0.37	-15.06	7.28	9.31	15,608	4
1/11/73–10/3/74	-48.20	44.43	25.99	-2.86	11.79	12.82	17.39	22,293	4
9/21/76–3/6/78	-19.41	18.76	17.20	25.80	-11.19	48.59	18.24	23,108	7
11/28/80–8/12/82	-27.11	66.11	6.80	18.52	34.65	40.98	31.90	39,917	1
8/25/87–12/4/87	-33.51	25.92	33.76	-3.74	20.31	17.12	17.97	22,845	2
7/16/90–10/11/90	-19.92	33.55	8.82	17.71	3.93	27.75	17.83	22,714	0
3/24/00–10/9/02	-49.15	36.15	9.91	8.51	15.09	18.05	17.14	22,060	1
10/9/07–3/9/09	-56.78	72.28	18.08	N/A	N/A	N/A	N/A	N/A	N/A
<b>Average</b>		<b>55.95</b>	<b>16.25</b>	<b>10.26</b>	<b>15.15</b>	<b>11.70</b>	<b>18.95</b>		

\* Market downturns are based on a decline of about 10% or more in the S&P 500's value (excluding dividends and/or distributions) with 50% recovery after each decline.

The percent decline is based on the index value of the unmanaged S&P 500 excluding dividends and/or distributions. Each market decline reflects a period of more than 80 days and a decline of about 15% or more in the S&P 500's index value with 100% recovery after each decline (except in 1976–78 when the market only recovered 78%). The average annual total returns and hypothetical investment results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions or expenses.



“Clearly, this is a very, very slow recovery, but that was expected. It’s important to bear in mind that it is under way. And once recoveries get started, they typically go a long time.”

— Jim Dunton, *portfolio counselor*

Since the 9/7/29–6/1/32 decline that started the Great Depression, history has shown that the five-year periods after a major market decline — although volatile — have generated attractive returns

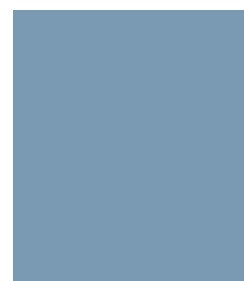
Average of all the five-year annual total returns after 16 major S&P 500 declines\*

18.95%



S&P 500's average annual total return (9/7/29–12/31/10)

8.87%











\* Average of the five-year annual total returns is based on 16 declines (excluding the most recent decline from 10/9/07–3/9/09). Dates (from high to low) of the declines included in the illustration are shown on page 4. The index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions or expenses.

# 3 | Companies have been a driving force behind recoveries

Heightened volatility and discouragingly low results have made the past 10 years seem like a “lost decade.” History, however, has shown that there have been many reasons for investors to be optimistic about the future. For one, many companies started during similarly tough times have become household names. And companies often made changes that strengthened their business and increased their attractiveness to investors — a trend we’re starting to see signs of today.

Some of today’s largest and best-known companies were founded during or shortly after a significant market decline, including:

1930s		1940s	
<p>Widespread bank failures, plummeting stock prices and a surge in bankruptcies were all defining events of the Great Depression. Starting in September 1929, there were four significant market declines of 30% or more — two of which occurred only a few months apart. By the end of the decade, the market was still in the midst of a decline and World War II had broken out in Europe.</p>		<p>The decade started in the midst of a 60% market decline. In 1941, the Japanese attacked Pearl Harbor, propelling the U.S. into war. By 1945, World War II was over. After years of economic depression and wartime deprivation, the nation’s standard of living began to rise. In the late ’40s, the increasing momentum of communism triggered the Cold War and the Korean War. And the decade ended where it began — in another market decline.</p>	
 (1930)*	 (1938)	 (1948)	 (1949)
1950s		1960s	
<p>The '50s began with the U.S. at war in Korea until 1953. The period from 1954 to the end of the decade was one of quiet progress in the United States. Despite the two significant market declines in 1953 and 1956, these were fairly prosperous times. Thousands of miles of interstate highways were built. And the love affair with the road would spur the rapid growth of everything from shopping malls to motel chains to fast-food restaurants.</p>		<p>This was the generation of the go-go years. But despite the seemingly cheerful moniker, it was a decade besieged by strife. The nation faced growing economic difficulties — namely surging inflation and interest rates. President John F. Kennedy was assassinated in 1963. Americans were sharply divided over Vietnam and beset by social upheaval. And within a two-month span in 1968, Robert F. Kennedy and Martin Luther King, Jr. were assassinated.</p>	
 (1954)	 (1957)	 (1962)	 (1964)*
1970s		1980s	
<p>In 1973, the once indomitable “Nifty Fifty” suddenly plunged, triggering a 48% decline. Inflation and interest rates were at sky-high levels. The U.S. pulled out of Vietnam in 1973, but Watergate ended up forcing Richard Nixon from the presidency. Americans had to endure rising gas prices and long lines at the pumps due to the energy crisis. The era ended with the Iran hostage crisis and the Three Mile Island nuclear accident.</p>		<p>The United States entered the 1980s under a cloud of a severe recession. Early on, the federal funds rate and the unemployment rate reached their highest levels to date — 20% and 10.8%, respectively. Starting in 1983, many favorable developments helped lift the stock market higher, including the steady fall of inflation and interest rates. And despite a sharp market decline in 1987, the U.S. began a period of sustained economic growth.</p>	
 (1975)	 (1976)	 (1980)	 (1982)

\* These two companies were founded under different names. Texas Instruments was Geophysical Service Inc., and Nike was Blue Ribbon Sports. Registered trademarks and/or logos shown are owned by the respective company: Texas Instruments Incorporated; SAMSUNG; McDonald’s Corporation; Medtronic, Inc.; Burger King Corporation; Hyatt Corporation; Wal-Mart Stores, Inc.; NIKE, Inc.; Microsoft Corporation; Apple Inc.; Amgen Inc. and Adobe Systems Incorporated.



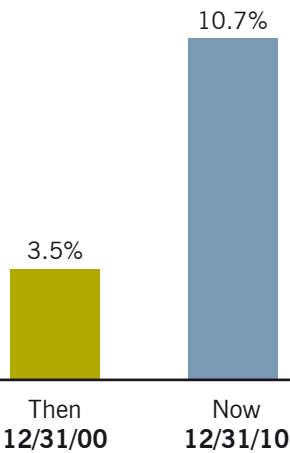
“I don’t mind buying companies in times of distress. I have a harder time with companies that I don’t think are particularly well-run. So what I look for is, one, a path to how the company is going to improve the returns on their business — both their profit margins and their returns on invested capital. Two, to see how disciplined they are in their use of cash. Are they disciplined about paying dividends and increasing dividends over time? And, three, I like to see some kind of leadership in their industry.”

— Jody Jonsson, *portfolio counselor*

Since December 31, 2000, U.S. companies generally have ...

... increased their cash holdings

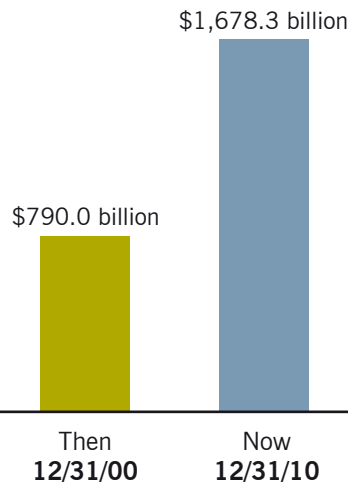
Cash on U.S. companies’ balance sheets as a percentage of the S&P 500 market cap



Sources: Empirical Research Partners Analysis and corporate reports. Data excludes financials and autos, which comprised approximately 20% of the index’s market cap, as of 12/31/10.

... seen their profits rise

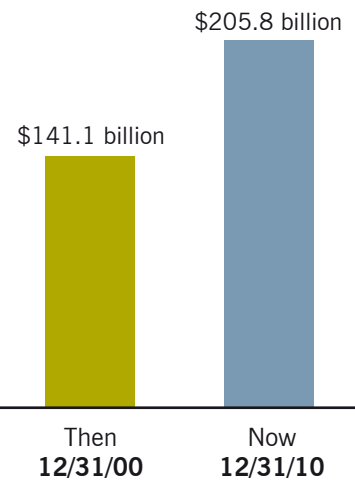
U.S. corporate profits



Source: Bureau of Economic Analysis. Corporate profits before tax with inventory valuation and capital consumption adjustments are seasonally adjusted at annual rates. Data as of 12/31/10 reflects information available on 6/24/11 and is subject to revision. The 12/31/10 corporate profits would have been approximately \$1,332 billion if adjusted for inflation from 12/31/00–12/31/10.

... increased their dividend payouts

Based on 12-month payouts



Source: S&P 500. The 12/31/10 dividend payout would have been approximately \$163 billion if adjusted for inflation from 12/31/00–12/31/10.

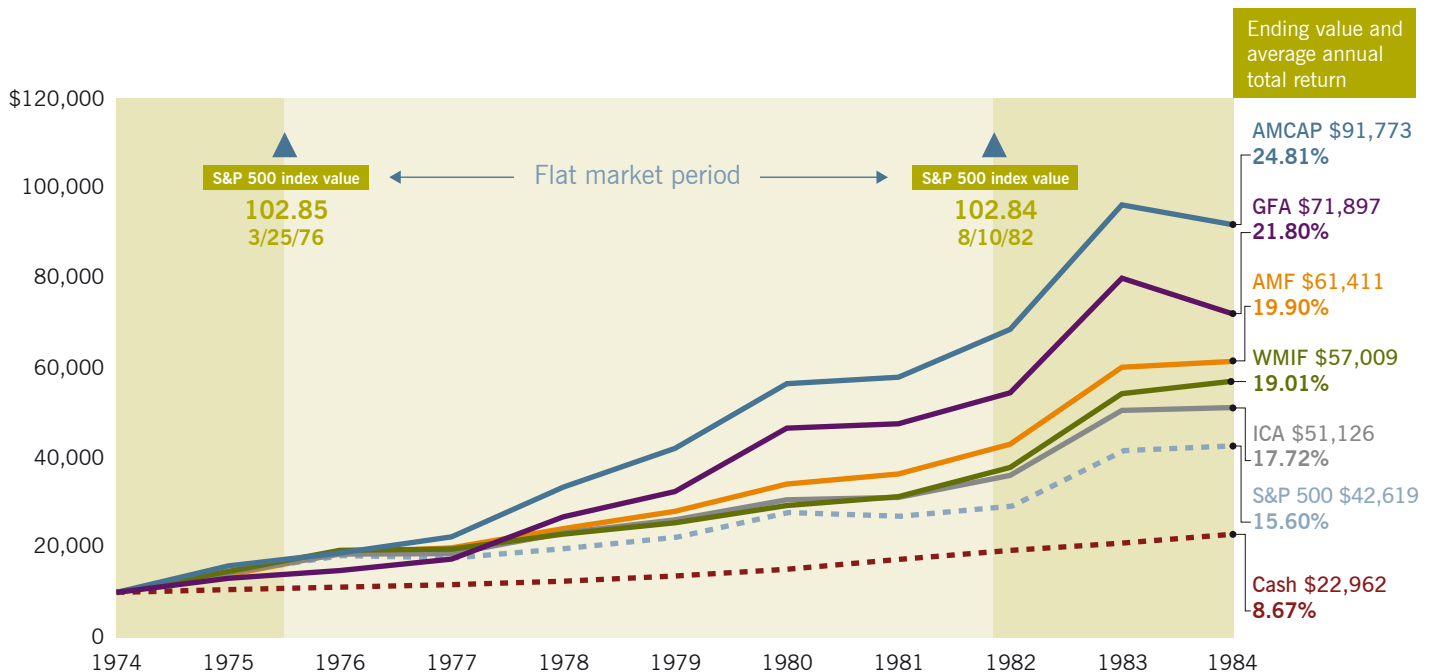
# 4 | Experience matters

While each market recovery has been different, they have shared a common pattern, as illustrated by the chart below. The first 12 months typically have been characterized by a strong advance — in this case a 44.4% total return. During the next few years, the market had a tendency to bump along at a slow pace, often referred to as a flat market. History has shown that it is during these challenging times that an experienced investment manager with a long history of managing shareholder investments through multiple market cycles has helped make a difference.

Figures shown are past results for Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results shown are at net asset value with all distributions reinvested. If a sales charge had been deducted, the results would have been lower. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).

## Growth during challenging times

Hypothetical \$10,000 investment from 10/3/74 to 10/3/84 — the 10-year period after the 1/11/73–10/3/74 market decline of 48.2% — in the five U.S. growth and growth-and-income American Funds in existence at that time, as well as the S&P 500 and cash



Values during flat market period	Value on 3/25/76	Value on 8/10/82	Difference
AMCAP Fund® (AMCAP)	\$19,970	\$58,854	\$38,884
The Growth Fund of America® (GFA)	16,362	47,720	31,358
American Mutual Fund® (AMF)	17,797	36,876	19,079
Washington Mutual Investors Fund <sup>SM</sup> (WMIF)	18,768	31,739	12,971
The Investment Company of America® (ICA)	17,644	30,424	12,780
S&P 500	17,568	24,382	6,814
Cash	10,897	19,089	8,192

The 48.2% decline from 1/11/73–10/3/74 is based on the index value of the S&P 500 excluding dividends and/or distributions.

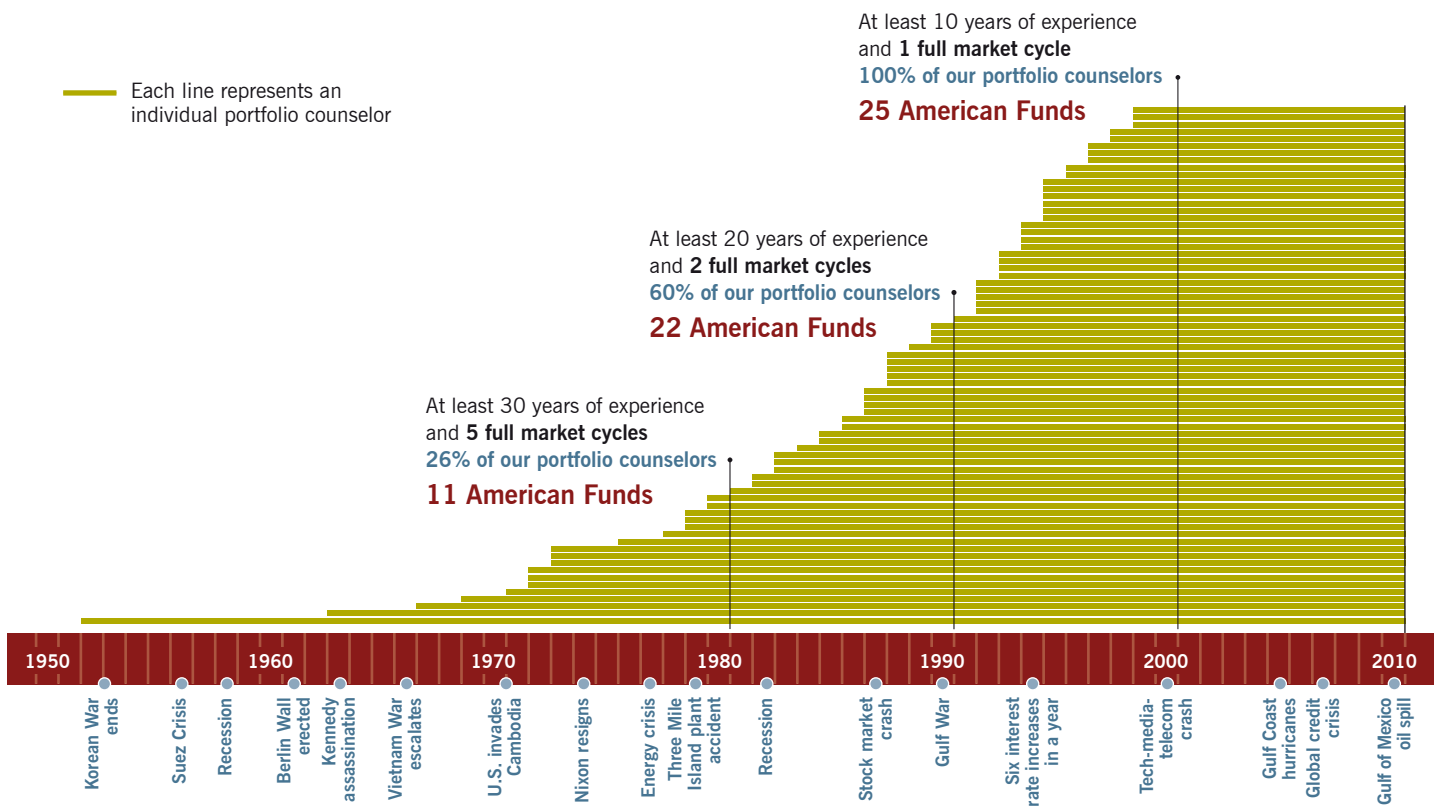
Source for cash: U.S. 91-Day Treasury Bills Index. U.S. Treasury bills are guaranteed by the full faith and credit of the U.S. government. The unmanaged indexes' results include reinvested dividends and/or distributions, but do not reflect the effect of sales charges, commissions or expenses.

As the excerpts and chart below show, challenging markets aren't new to the American Funds. In fact, during our 80-year lifetime, we've faced 17 significant market declines, including the most recent one, and witnessed decades of sweeping changes in the economy and markets. And while we understand how emotional

these times can be, we have a well-established investment approach that relies on company-by-company, issuer-by-issuer global investment research to help us seek attractive long-term opportunities for our shareholders during *all* the stages of a market cycle.

AMCAP Fund then ...	AMCAP Fund now ...
 <p>“A lot of people are still afraid to invest. Intellectually they know that the values are there. They know that on the basis of logical, time-tested measurements like earnings, dividends and book value, many stocks are at attractive levels. But emotionally, they're not ready. We've been through some extremely difficult and frustrating years, and it's going to take time for the wounds to heal.”</p> <p>— 1976 annual report</p>	 <p>“The 2008–2009 period was one of the most frightening periods that most of us have ever lived through. ... But it is during these periods of strife, uncertainty and trauma that the best long-term investment opportunities arise. In fact, we had a great opportunity to buy good companies at attractive prices when there was the most amount of stress and fear.”</p> <p>— 2010 annual report</p>

**A long history of managing shareholder assets**



Portfolio counselor overall investment experience as shown in current fund prospectuses available at 1/1/11.

Full market cycles are based on the results of the unmanaged S&P 500 from market high to market low to the next market high or from market low to market high to the next market low. The market highs and lows are based on the index value of the S&P 500 excluding dividends and/or distributions.

# 5

## Stay the course with a long-term action plan

During a recovery, investors may be tempted to use short-term stock market results to determine the perfect time to invest. Heightened volatility in the market can make this a difficult and inaccurate tactic. And because after past declines some funds recovered before the stock market did, you might miss out on earlier gains if a similar pattern emerges. Here's a disciplined investment plan that can help you stay on track with your long-term objectives.

### Don't base your decisions on how you feel

It's easy to get caught up in the frenzy and want to buy when markets are reaching their all-time highs and sell after they've plummeted toward their lows. A recent survey by DALBAR, a financial research firm, has shown these emotional behaviors actually caused investors' long-term results to significantly lag the broader market over longer periods of time. To help stay the course, work with your financial professional to build a diversified portfolio tailored to meet your unique long-term goals and risk tolerance. By diversifying your assets across several asset classes, you can help:

- put your portfolio in a position to benefit from the best-performing asset class in a given year.
- reduce the overall volatility in your portfolio over the long haul.

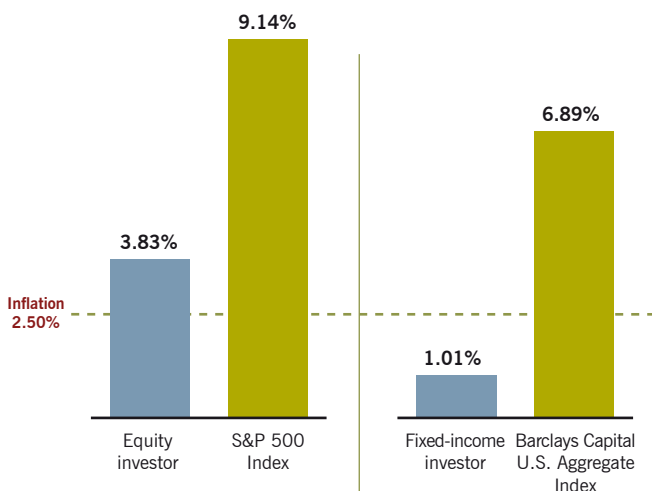
### Avoid the market timing trap

While it may be tempting to wait for the markets to settle down before you invest, history has shown that trying to time the market actually can hurt your long-term results more than market volatility. For example, during the 10-year period after the 1973–74 stock market decline, an investor who missed just 10 of the market's best days would have also "missed out" on more than 50% of the price return had they stayed invested during the entire period. Identifying these 10 best days is an impossible task when you consider that of the 2,528 days during the 10-year period:

- None of the market's 10 best days were consecutive.
- 4 of the 10 best days were in one year.
- 6 of the years did not have any of the 10 best days.

#### Investor vs. market returns

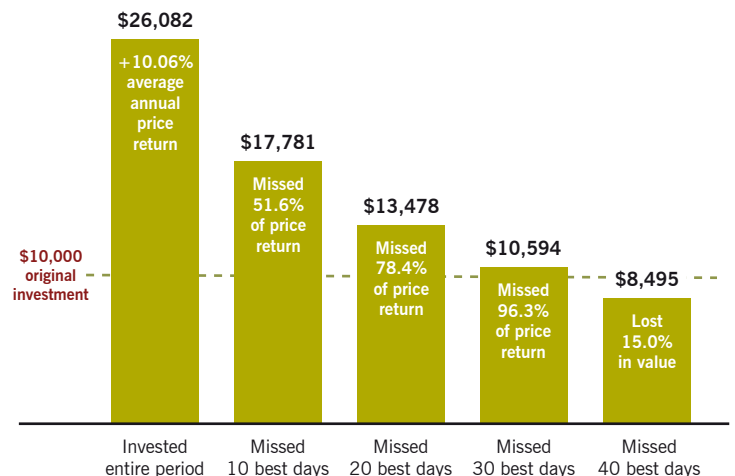
Average annual total returns for the 20-year period ended 12/31/10



Sources: DALBAR for equity and fixed-income investors; Consumer Price Index for inflation

#### Perils of market timing

Value of a hypothetical \$10,000 investment in the S&P 500, excluding dividends, from 10/3/74–10/3/84, the 10-year period after the 1/11/73–10/3/74 market decline of 48.2%



Results shown exclude dividends.

The indexes are unmanaged, and their results do not reflect the effect of sales charges, commissions or expenses.



“During the recent decline, there were very few places for investors to hide. That doesn’t mean that diversification was a bad idea. Some in the investment business are now saying that the answer is tactical asset allocation and market timing. I would caution investors that it’s never been proven that anybody can do those things consistently. I would say, beware of market timing and trading. Keep focused on the long term and stay with diversification.”

— Jim Rothenberg, *portfolio counselor*

### View declines as times of opportunity

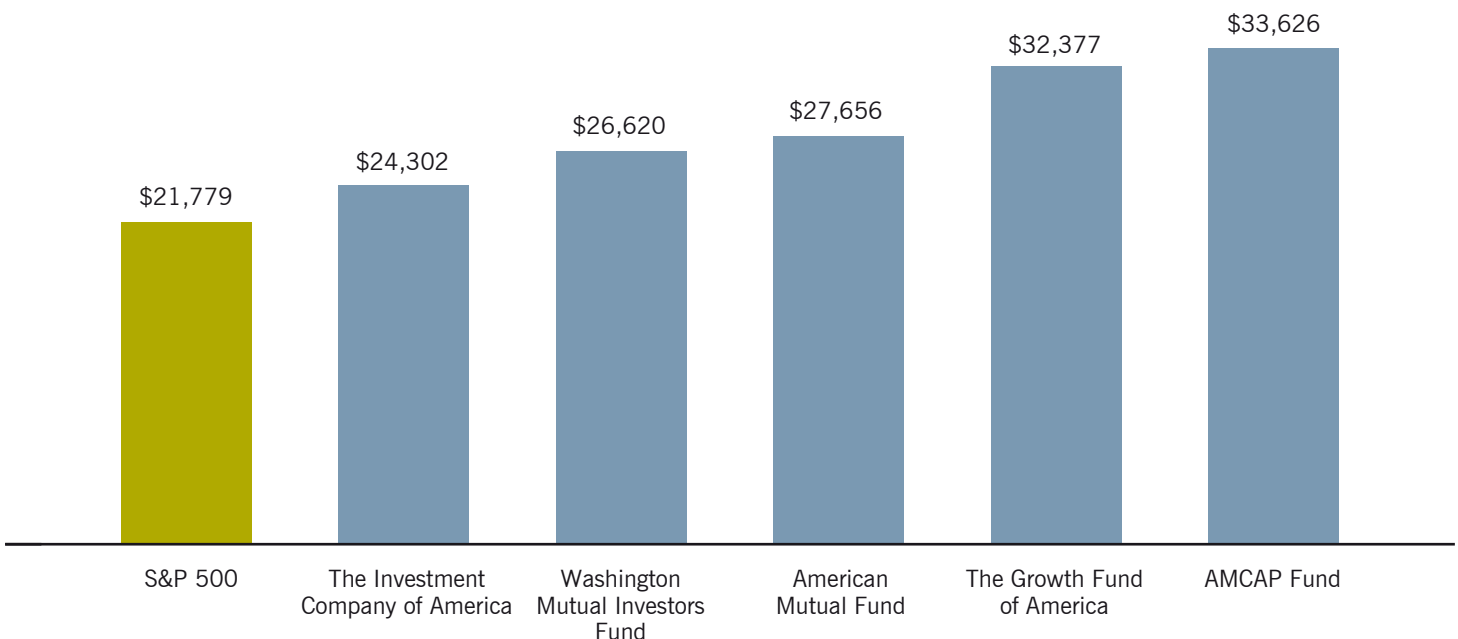
Depending on your personal situation, one thing you might consider is buying more shares of your mutual funds. If you want to take advantage of investing when prices are lower — but are uncomfortable with diving in all at once — consider setting up a program where you invest the same dollar amount once a month. Although this strategy doesn’t ensure a profit or protect against a loss, it’s an excellent way to:

- take the emotion out of when to invest.
- potentially take advantage of market declines because you’re buying more shares when prices are lower.

Figures shown are past results for Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results shown are at net asset value with all distributions reinvested. If a sales charge had been deducted, the results would have been lower. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).

### Take small steps toward your long-term goals

Ending values for a regular investment strategy during the 10-year period after the 1/11/73–10/3/74 market decline of 48.2%. Assumes hypothetical monthly investments of \$100 from 10/3/74–12/31/82, totaling \$10,000, in the five U.S. growth and growth-and-income American Funds in existence at the time, as well as the S&P 500.



The 48.2% decline is based on the index value of the S&P 500 excluding dividends and/or distributions.

# Let history be your guide

Fear, panic and uncertainty are all common emotions investors feel during or after a significant market decline. But before you react and make changes to your investments, it's important to make sure you don't make decisions you might later regret. This guide was created to help address common investor concerns and to assist in giving you a broader, historical perspective of what's happening in today's markets.

Concern	Response	Evidence
"It's different this time."	Throughout the history of the markets, investors have had to face challenges, panics and crises. And while the past is no guarantee of future results, those investors who stayed the course were rewarded for their perseverance.	Pages 2–3
"How long will it take the markets to recover?"	Although there's no way to know when the market will recover, every decade since the Great Depression has had major declines in the S&P 500, and the five years following those declines have been characterized by attractive returns.	Pages 4–5
"I'm worried about the economy."	In the past, innovations and strengthening company fundamentals have been among the driving forces behind market recoveries. And there are signs that these fundamentals are starting to improve.	Pages 6–7
"You can't make money during volatile markets."	Recoveries can be a time of opportunity. During these times, finding an investment manager with experience managing shareholder assets through many market cycles has helped make a difference in flat and rough markets.	Pages 8–9
"Now is not a good time to invest or be invested."	Wanting to invest when the market is rising and to get out during a decline is natural. However, history has shown that, over the long term, successfully timing the market is impossible and investors can be better served by diversifying their assets and staying invested during <b>all</b> stages of the market cycle.	Pages 10–11

Below are the funds' average annual total returns for Class A shares with all distributions reinvested for periods ended **June 30, 2011**, assuming payment of the **5.75%** maximum sales charge at the beginning of the stated periods:

	1 year	5 years	10 years	Expense ratio
AMCAP Fund	<b>22.82%</b>	<b>2.82%</b>	<b>3.20%</b>	<b>0.73%</b>
The Growth Fund of America	<b>20.31</b>	<b>1.68</b>	<b>3.27</b>	<b>0.69</b>
American Mutual Fund	<b>19.16</b>	<b>2.65</b>	<b>4.26</b>	<b>0.63</b>
The Investment Company of America	<b>18.90</b>	<b>0.92</b>	<b>3.10</b>	<b>0.61</b>
Washington Mutual Investors Fund	<b>23.92</b>	<b>1.41</b>	<b>3.14</b>	<b>0.63</b>

Expense ratios are as of each fund's most recent fiscal year-end. From September 1, 2004, through December 31, 2008, the investment adviser to the American Funds and the business manager for Washington Mutual Investors Fund waived a portion of their management fees. Investment results reflect the waiver, without which the results would have been lower. Please see each fund's most recent shareholder report or prospectus for details.

**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 prospectus and summary prospectus, which can be obtained from a financial professional and should be read carefully before investing. If used after September 30, 2011, this brochure must be accompanied by a current American Funds quarterly statistical update.** The unmanaged S&P 500 is a widely used measure of stocks issued by relatively large U.S. companies.

Visit us at [americanfunds.com](http://americanfunds.com).