Dimensional

PERSPECTIVES

Worried About Stocks? Why Long-Term Investing Is Crucial

David Booth
Executive Chairman and Founder

May 23, 2022

We are living in a time of extreme uncertainty and the anxiety that comes along with it. Against the backdrop of war, humanitarian crisis, and economic hardship, it's natural to wonder what effect these world events will have on our long-term investment performance.

While these challenges certainly warrant our attention and deep concern, they don't have to be a reason to panic about markets when you're focused on long-term investing.

Imagine it's 25 years ago, 1997:

- J.K. Rowling just published the first Harry Potter book.
- General Motors is releasing the EV1, an electric car with a range of 60 miles.
- The internet is in its infancy, Y2K looms, and everyone is worried about the Russian financial crisis.

A stranger offers to tell you what's going to happen over the course of the next 25 years. Here's the big question: Would you invest in the stock market knowing the following events were going to happen? And could you stay invested?

- Asian contagion
- Russian default
- Tech collapse
- 9/11
- Stocks' "lost decade"
- Great Recession
- Global pandemic
- Second Russian default

With everything I just mentioned, what would you have done? Gotten into the market? Gotten out? Increased your equity holdings? Decreased them?

Well, let's look at what happened.

From January of 1997 to December of 2021, the US stock market returned, on average, 9.8% a year.[1]

A dollar invested at the beginning of the period would be worth about $10.25 at the end of the period.[2]

These returns are very much in line with what returns have been over the history of the stock market. How can that be? The market is doing its job. It's science.

Investing in markets is uncertain. The role of markets is to price in that uncertainty.

Investing in markets is uncertain. The role of markets is to price in that uncertainty. There were a lot of negative surprises over the past 25 years, but there were a lot of positive ones as well. The net result was a stock market return that seems very reasonable, even generous. It's a tribute to human ingenuity that when negative forces pop up, people and companies respond and mobilize to get things back on track.

Human ingenuity created incredible innovations over the past 25 years. Plenty of things went wrong, but plenty of things went right. There's always opportunity out there. Think about how different life is from the way it was in 1999: the way we work, the way we communicate, the way we live. For example, the gross domestic product of the US in 1997 was $8.6 trillion and grew to $23 trillion in 2021. (Read more about the merits of investing in innovation.)

I am an eternal optimist, because I believe in people. I have an unshakable faith in human beings' ability to deal with tough times. In 1997, few would have forecast a nearly 10% average return for the stock market. But that remarkable return was available to anyone who could open an investment account, buy a broad-market portfolio, and let the market do its job.

Investing in the stock market is always uncertain. Uncertainty never goes away. If it did, there wouldn't be a stock market. It's because of uncertainty that we have a positive premium when investing in stocks vs. relatively riskless assets. In my opinion, reaping the benefits of the stock market requires being a long-term investor.

By investing in a market portfolio, you're not trying to figure out which stocks are going to thrive, and which aren't going to be able to recover. You're betting on human ingenuity to solve problems.

The pandemic was a big blow to the economy. But people, companies and markets adapt. That's my worldview. Whatever the next blow we face, I have faith that we will meet the challenge in ways we can't forecast.

I would never try to predict what might happen in the next 25 years. But I do believe the best investment strategy going forward is to keep in mind the lesson learned from that stranger back in 1997: Don't panic. Invest for the long term.

1. In US dollars. S&P 500 Index annual returns 1997–2021. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

2. Data presented for the growth of $1 are hypothetical and assume reinvestment of income and no transaction costs or taxes. This value is for educational purposes only and is not indicative of any investment.

The information in this material is intended for the recipient's background information and use only. It is provided in good faith and without any warranty or representation as to accuracy or completeness. Information and opinions presented in this material have been obtained or derived from sources believed by Dimensional to be reliable and Dimensional has reasonable grounds to believe that all factual information herein is true as at the date of this material. It does not constitute investment advice, recommendation, or an offer of any services or products for sale and is not intended to provide a sufficient basis on which to make an investment decision. It is the responsibility of any persons wishing to make a purchase to inform themselves of and observe all applicable laws and regulations. Unauthorised reproduction or transmitting of this material is strictly prohibited. Dimensional accepts no responsibility for loss arising from the use of the information contained herein.

"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., Dimensional Ireland Limited, DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd, Dimensional Japan Ltd. and Dimensional Hong Kong Limited. Dimensional Hong Kong Limited is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

Risks

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

UNITED STATES

Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

Investment products: • Not FDIC Insured • Not Bank Guaranteed • May Lose Value
Dimensional Fund Advisors does not have any bank affiliates.

CANADA

These materials have been prepared by Dimensional Fund Advisors Canada ULC. The other Dimensional entities referenced herein are not registered resident investment fund managers or portfolio managers in Canada.

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise noted, any indicated total rates of return reflect the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or other distributions and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

AUSTRALIA and NEW ZEALAND

This material is issued by DFA Australia Limited (AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, to the extent this material constitutes general financial product advice, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and the target market determination (TMD) that has been made for each financial product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to au.dimensional.com/funds to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

WHERE ISSUED BY DIMENSIONAL IRELAND LIMITED

Issued by Dimensional Ireland Limited (Dimensional Ireland), with registered office 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland. Dimensional Ireland is regulated by the Central Bank of Ireland (Registration No. C185067).

Dimensional Ireland does not give financial advice. You are responsible for deciding whether an investment is suitable for your personal circumstances, and we recommend that a financial adviser helps you with that decision.

Dimensional Ireland issues information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from Dimensional Ireland will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

WHERE ISSUED BY DIMENSIONAL FUND ADVISORS LTD.

Issued by Dimensional Fund Advisors Ltd. (Dimensional UK), 20 Triton Street, Regent's Place, London, NW1 3BF. Dimensional UK is authorised and regulated by the Financial Conduct Authority (FCA) - Firm Reference No. 150100.

Dimensional UK does not give financial advice. You are responsible for deciding whether an investment is suitable for your personal circumstances, and we recommend that a financial adviser helps you with that decision.

Dimensional UK issues information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from Dimensional UK will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

NOTICE TO INVESTORS IN SWITZERLAND: This is advertising material.

JAPAN

For Institutional Investors and Registered Financial Instruments Intermediary Service Providers.

This material is deemed to be issued by Dimensional Japan Ltd., which is regulated by the Financial Services Agency of Japan and is registered as a Financial Instruments Firm conducting Investment Management Business and Investment Advisory and Agency Business.

Dimensional Japan Ltd.
Director of Kanto Local Finance Bureau (FIBO) No. 2683
Membership: Japan Investment Advisers Association

SINGAPORE

This material is deemed to be issued by Dimensional Fund Advisors Pte. Ltd., which is regulated by the Monetary Authority of Singapore and holds a capital markets services license for fund management.

This material is not an advertisement, has not been reviewed by the Monetary Authority of Singapore, and should not be shown to prospective retail investors.

FOR PROFESSIONAL INVESTORS IN HONG KONG

This material is deemed to be issued by Dimensional Hong Kong Limited (CE No. BJE760) ("Dimensional Hong Kong"), which is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

This material should only be provided to "professional investors" (as defined in the Securities and Futures Ordinance [Chapter 571 of the Laws of Hong Kong] and its subsidiary legislation) and is not for use with the public. When provided to prospective investors, this material forms part of, and must be provided together with, applicable fund offering materials. This material must not be provided to prospective investors on a standalone basis. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice.

Neither Dimensional Hong Kong nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors. Financial advisors in Hong Kong shall not actively market the services of Dimensional Hong Kong or its affiliates to the Hong Kong public.