Dimensional

Tuning Out the Noise

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For investors, it can be easy to feel overwhelmed by the relentless stream of news about markets. Being bombarded with data and headlines presented as affecting your financial well-being can evoke strong emotional responses from even the most experienced investors. Headlines from the so-called lost decade–the 2000s, when the S&P 500 ended below where it began–can help illustrate several periods that may have led market participants to question their approach.

- March 2000:
  Nasdaq Stock Exchange Index Reaches an All-Time High of 5048
- April 2000:
  In Less Than a Month, Nearly a Trillion Dollars of Stock Value Evaporates
- October 2002:
  Nasdaq Hits a Bear-Market Low of 1114
- September 2005:
  Home Prices Post Record Gains
- September 2008:
  Lehman Files for Bankruptcy, Merrill Is Sold

While these events are more than a decade behind us, they can still serve as an important reminder for investors. For many, feelings of elation or despair can accompany headlines like these. We should remember that markets can be volatile and recognize that, in the moment, doing nothing may feel paralyzing. However, if one had hypothetically invested $10,000 in US stocks in January 2000 and stayed invested, that would be worth approximately $32,400 at the end of 2019.[1]

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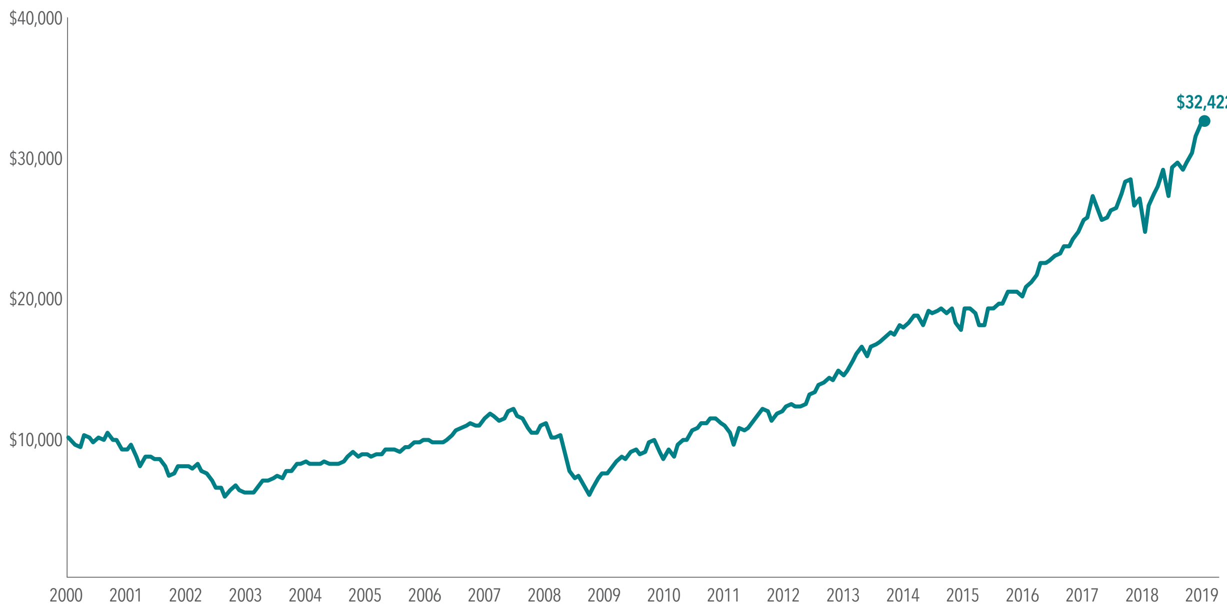
When faced with short-term noise, it is easy to lose sight of the potential long-term benefits of staying invested. While no one has a crystal ball, adopting a long-term perspective can help change how investors view market volatility and help them look beyond the headlines.

THE VALUE OF A TRUSTED ADVISOR

Part of being able to avoid giving in to emotion during periods of uncertainty is having an appropriate asset allocation that is aligned with an investor's willingness and ability to bear risk. It also helps to remember that if returns were guaranteed, you would not expect to earn a premium. Creating a portfolio investors are comfortable with, understanding that uncertainty is a part of investing, and sticking to a plan may ultimately lead to a better investment experience.

Exhibit 1: Hypothetical Growth of Wealth in the S&P 500 Index
January 1, 2000–December 31, 2019

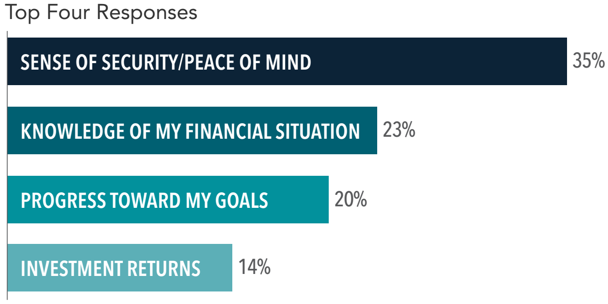


 Not representative of an actual investment. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

However, as with many aspects of life, we can all benefit from a bit of help in reaching our goals. The best athletes in the world work closely with a coach to increase their odds of winning, and many successful professionals rely on the assistance of a mentor or career coach to help them manage the obstacles that arise during a career. Why? They understand that the wisdom of an experienced professional, combined with the discipline to forge ahead during challenging times, can keep them on the right track. The right financial advisor can play this vital role for an investor. A financial advisor can provide the expertise, perspective, and encouragement to keep you focused on your destination and in your seat when it matters most. A survey conducted by Dimensional Fund Advisors found that, along with progress towards their goals, investors place a high value on the sense of security they receive from their relationship with a financial advisor, as **Exhibit 2** shows.

Exhibit 2: How Do You Primarily Measure the Value Received from Your Advisor?

Top Four Responses



Source: Dimensional Fund Advisors. In 2017, the firm surveyed almost 19,000 investors globally to help advisors who work with Dimensional better understand what is important to their clients.

Having a strong relationship with an advisor can help you be better prepared to live your life through the ups and downs of the market. That's the value of discipline, perspective, and calm. That's the difference the right financial advisor makes.

For a short video on this topic, please see us.dimensional.com/perspectives/tuning-out-the-noise.

1. As measured by the S&P 500 Index. A hypothetical portfolio of $10,000 invested on January 1, 2000, and tracking the S&P 500 Index, would have grown to $32,422 on December 31, 2019. However, performance of a hypothetical investment does not reflect transaction costs, taxes, or returns that any investor actually attained and may not reflect the true costs, including management fees, of an actual portfolio. Changes in any assumption may have a material impact on the hypothetical returns presented. It is not possible to invest directly in an index.

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