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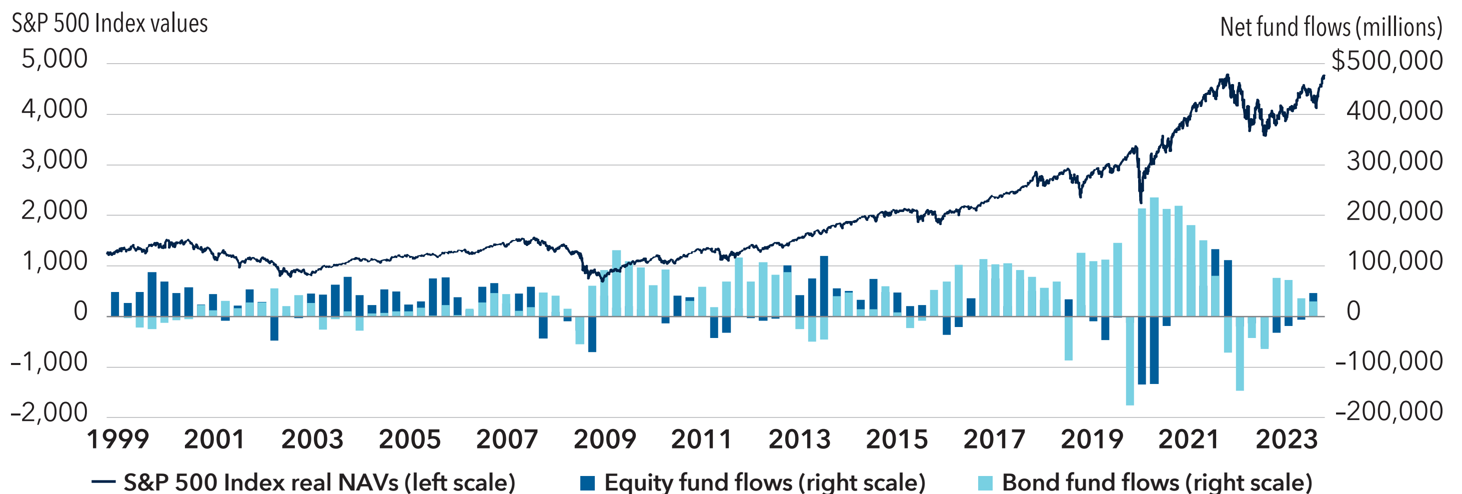
A thousand years ago, the Plains Indians in particular developed a highly efficient hunting strategy known as the Buffalo Jump that used bisons' natural herding instinct to coerce them to stampede off of cliffs. Young hunters would disguise themselves as bison and, mimicking a calf's distress call, lure the bison to the cliff's edge, then others disguised as wolves would create a panic that would force them to run (and fall) en masse.

The great chase

The instinct to follow the herd isn't limited to buffalo. In fact, history has shown that investors have tended to move in large groups based on what was happening in the market. The chart below plots equity and bond fund flows during various stages of the market cycle. As you can see, investors flocked into the equity market when stock prices rose and sold their equity funds and moved into bond funds when prices significantly declined.

The impact of rising and falling stock prices on investor behavior



Source: Index data – Standard & Poor's; Fund flows data – Morningstar. Fund flows for U.S. open-end and exchange-traded funds, including obsolete funds and excluding money market, feeder and funds of funds. Equity fund flows include international, U.S. and sector equity categories; bond fund flows include taxable and municipal bond categories. Past results are not predictive of results in future periods.

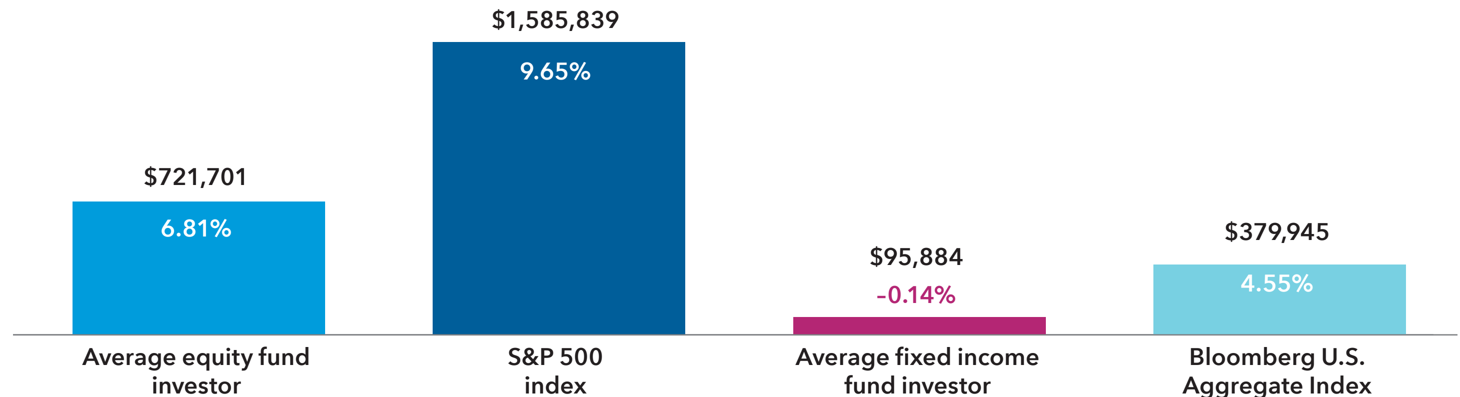
Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

A reason to stand your ground

A recent survey by DALBAR, a financial research firm, has shown how the temptation for investors generally to follow their peers by diving into the market at the top and fleeing at the bottom has actually caused investor results to significantly lag the broader markets over the long haul.

The moral of the story? Rather than following the herd during the market highs and lows, investors have been better served by staying invested during all stages of the market.

Growth of a hypothetical $100,000 investment (1/1/1993–12/31/2022)



Source: Capital Group calculations based on data from DALBAR, Quantitative Analysis of Investor Behavior (QAIB) for the period ended December 31, 2022. QAIB uses data from the Investment Company Institute (ICI), Standard & Poor's, Bloomberg Indices and proprietary sources to compare mutual fund investor returns to an appropriate set of benchmarks. The study utilizes mutual fund sales, redemptions and exchanges each month as the measure of investor behavior. These behaviors reflect the "average investor." Based on this behavior, the analysis calculates the "average investor return" for various periods. These results are then compared to the returns of respective indices.

Past results are not predictive of results in future periods.

The S&P 500 Index is an unmanaged float-adjusted market capitalization-weighted index that is generally considered representatives of the U.S. stock market. Other indexes may be more appropriate to benchmark your investments against. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. Data is provided for illustrative purposes only, it does not represent actual result of any client portfolio or account and it should not be interpreted as an indication of such results.

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

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