

## Capital Group Classics Edition

If recent market volatility has you nervous, this update of a classic brochure from 2009 may help you remember why investing for the long term has been a successful strategy.



**CAPITAL  
GROUP**<sup>®</sup>

**AMERICAN  
FUNDS**<sup>®</sup>



# Braving the bear

## Taking a stand

Long-term investors inevitably face bear markets during their lifetimes. Your actions during these tough times can impact your long-term results as much – if not more – than market volatility.

# Look beyond the headlines

Stocks slip and crash — violent plunge brings panic

Rough Year for Stocks

Markets in 'panic mode'

When times get rough, investors often get caught up in the moment-to-moment market movements and are distracted by the daily headlines. But as different as this time may seem, you may gain comfort from the fact that there have been other times like these. In fact, the headlines above – which may seem current – are from 1929, 1967 and 2008, respectively.

Although you can't control when market declines occur or how long they last, you can control how you handle the situation. These actions can significantly affect your investment success over the long term.

“Courage! We have been here before. Bear markets have lasted this long before. Well-managed mutual funds have gone down this much before. And shareholders in those funds and we the industry survived and prospered.”

– Perspective on the market offered by Jim Fullerton, former chairman of Capital Group, on November 7, 1974

Sources: Los Angeles Times, October 4, 1929; The New York Times, January 9, 1967; Los Angeles Times, November 21, 2008.

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.**

# Avoid buying high and selling low

There's little doubt about it: When financial markets are on the rise, the desire to invest grows. And when markets decline, investors tend to run for cover. These tendencies can be seen in some of the peaks and valleys over the last extended bear market as illustrated

in the chart below. The blue line shows the value of the S&P 500 Index, and the bars represent the amount of money flowing into domestic and international stock mutual funds as well as exchange-traded funds (ETFs). One of the greatest flows of money into the

market occurred right as it was peaking in early 2000, arguably the worst time to invest. Two of the highest flows out of these funds happened when the market hit bottom in the fall of 2002 and the winter of 2008.

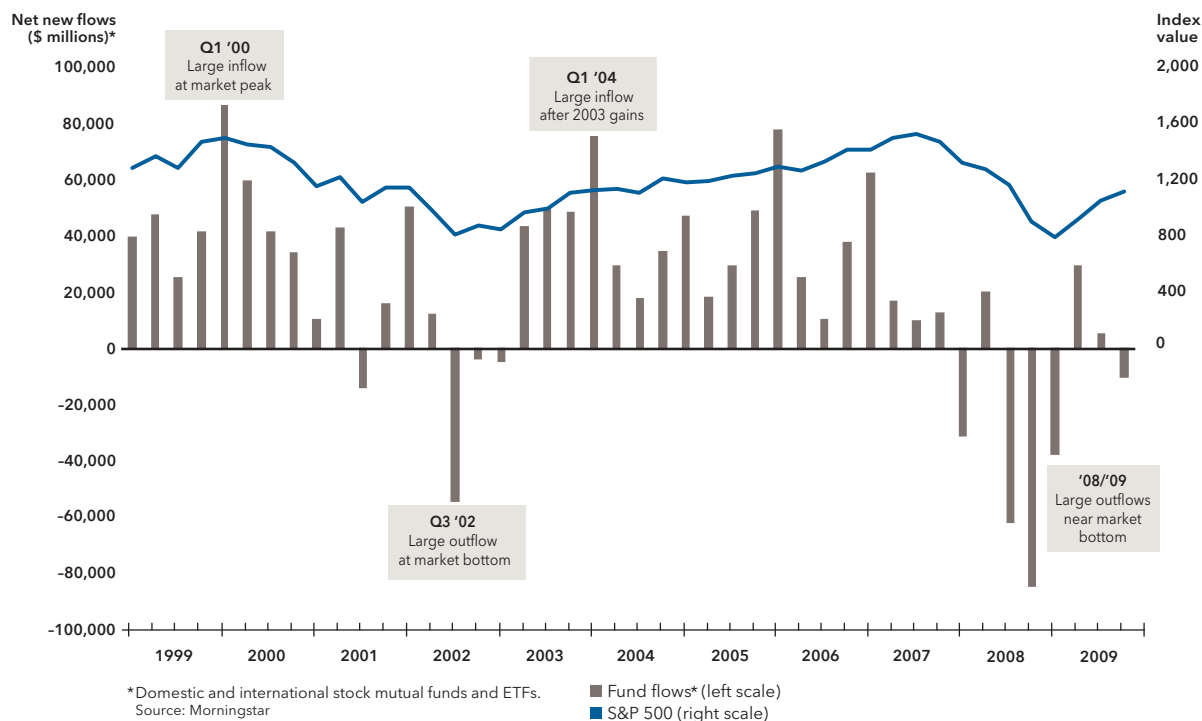
"I can't predict the short-term movements of the stock market. ... What is likely, however, is that the market will move higher ... well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over."

– Warren Buffett, October 2008

## The lesson

By letting the results of the market drive their behavior, investors risk buying high and selling low. And because it's almost impossible to determine the best time to get back in, they also increase their chances of missing out on the rising returns that typically occur during market recoveries.

Market cycles and investor behavior (1999-2009)



Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries.

Past results are not predictive of results in future periods.

Figures shown on this page and the next three 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. Prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Unless otherwise indicated, results shown reflect deduction of the maximum 5.75% sales charge with all distributions reinvested. For current information and month-end results, visit [capitalgroup.com](http://capitalgroup.com).

## Gain confidence from the past

Let's consider the three secular bear markets since the early 1900s. Although the environment and ending results for each is unique, they all offer important lessons that can help guide you through today's trying markets.

**Don't underestimate the power of time and dividends.** When markets get rough, investors tend to focus on weekly, daily and even hourly price movements. These movements, as illustrated by the weekly S&P 500 price change charts on the next few pages, do not include dividends. As the results of the hypothetical \$10,000 investment charts show, dividends had a significant impact on the long-term results of an investment in The Investment Company of America® (ICA). In fact, for ICA, during:

- **The Great Depression secular bear market** (from the inception of ICA on 1/1/34 through 4/28/42), dividends accounted for \$4,469 of the \$20,675 ending value.
- **The 1970s secular bear market** (2/9/66–8/12/82), dividends accounted for \$11,074 of the \$30,974 ending value.

- **The 2000s secular bear market** (3/24/00–3/9/09), dividends accounted for \$1,919 of the \$7,273 ending value.

### Understand the importance of an active, research-driven investment approach.

When markets are in turmoil, emotionally driven investors tend to sell their investments and get out of the market altogether, as illustrated in the chart on page 3. As a result, valuations can reach low levels – even for companies with sound balance sheets, strong management and good long-term prospects. In these markets, assessing a company's true worth and long-term potential requires more than reviewing quarterly earnings or Wall Street research.

Born during the tumultuous Great Depression, ICA has faced its share of

volatile markets. Even during what may have seemed like the darkest days of each secular bear, the fund's investment adviser has relied on extensive, company-by-company research to uncover good long-term values and opportunities for investors.

### What is a secular bear market?

Unlike cyclical bear markets, which can be as brief as a few months, a secular bear market typically lasts 10 to 20 years. Although they may include a number of declines and rallies, the overall stock market returns during secular bear markets are below historical lifetime averages.

The stock market is represented by the S&P 500 Index, a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. The index is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2023 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. There have been periods when the fund has lagged the index.

Here are ICA's average annual total returns based on a \$1,000 investment for periods ended **September 30, 2023**:

	1 year	5 years	10 years	Expense ratio
Class A shares	18.50%	7.01%	9.64%	0.58%

Investment results assume all distributions are reinvested and reflect applicable fees and expenses and payment of the maximum 5.75% sales charge. When applicable, investment results reflect fee waivers, without which results would have been lower. Expense ratio is as of the fund's prospectus available at the time of publication.

# The Great Depression – September 7, 1929, to April 28, 1942

Widespread bank failures, plummeting stock prices and a surge in bankruptcies were all defining events of the Great Depression. During the first few years, the U.S. government did little to stem the crisis. In fact, the Reconstruction Finance Corporation – an independent agency established to shore up banks, farm mortgage associations and railroads – wasn't set up until 1932. Also, at the time of the crash of 1929, there was no Federal Deposit Insurance Corporation (FDIC)

to help stave off bank panics, no Social Security to assist the elderly and disabled, no unemployment insurance and no Securities and Exchange Commission (SEC) to regulate financial activities. These organizations were established in the 1930s.

**From January 1, 1934 (ICA's inception) through April 28, 1942, a \$10,000 investment in ICA would have doubled to \$20,675. (See chart below.)**

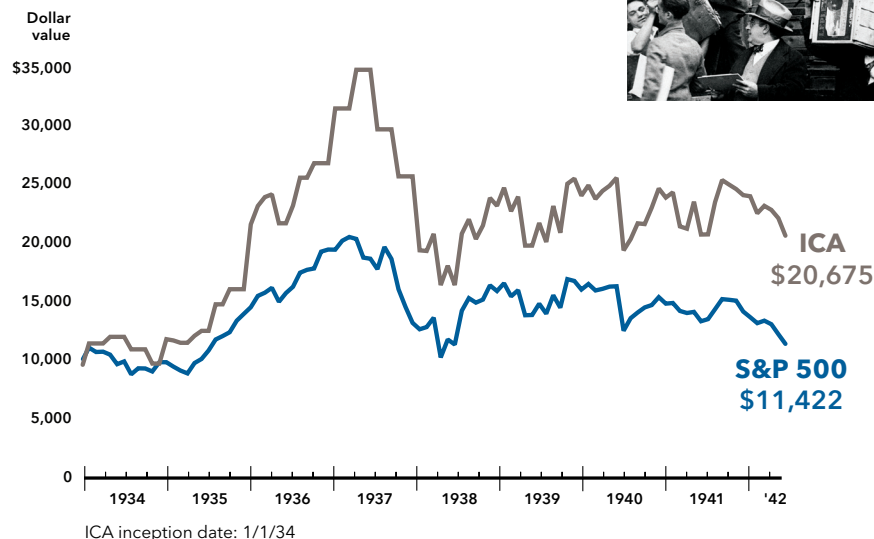
## If held:

- **three years after the bear market, or 4/28/45, the investment would have quadrupled to \$48,469 for ICA, compared to \$26,794 for the S&P 500.**
- **five years after the bear market, or 4/28/47, the investment would have quintupled to \$51,011 for ICA, compared to \$28,372 for the S&P 500.**

## \$10,000 hypothetical investment in ICA and the S&P 500

For the period 1/1/34 to 4/28/42 (plotted monthly; distributions reinvested)

During the Great Depression, the unemployment rate rose from 3% to almost 25%,<sup>1</sup> three times higher than the 7.8% rate as of 12/31/08.<sup>2</sup> At the beginning of 1934, the default rate on urban homes was almost 50%.<sup>3</sup> As of 9/30/08, 6.99% of U.S. residential mortgages were delinquent and 2.97% were in the process of foreclosure.<sup>4</sup>



## S&P 500 weekly price changes

From 9/7/29 to 4/28/42 (without dividends)



Sources: Capital Group and S&P Dow Jones Indices LLC

Hypothetical results are for illustrative purposes only and in no way represent the actual results of a specific investment. Past results are not predictive of results in future periods.

# The 1970s – February 9, 1966, to August 12, 1982

This was the generation of the go-go years and the "Nifty Fifty," a group of popular stocks that were said to be "one-decision" stocks to be bought and never sold. But despite the seemingly cheerful monikers, it was an era besieged with strife. The stock market's muted growth over this period reflected the nation's growing economic difficulties, namely surging inflation and interest rates. Americans were sharply divided over

Vietnam and beset by social upheaval. Within the space of two months in 1968, both Robert Kennedy and Martin Luther King, Jr. were assassinated. Then came the oil crisis, the Watergate scandal and a 48% stock market decline – led by the fall of the once indomitable Nifty Fifty – and a severe U.S. recession.

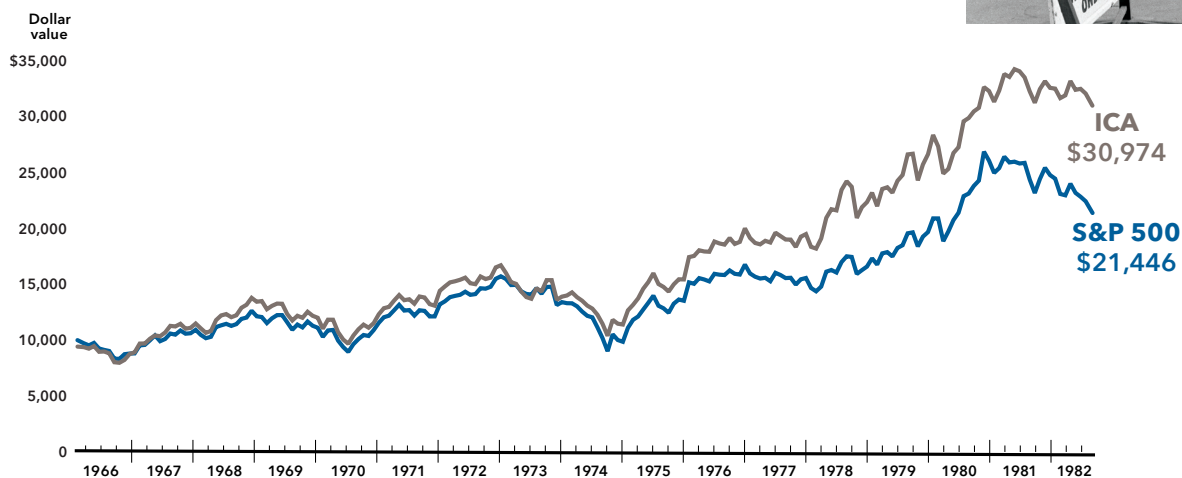
**During the 1970s bear market, a \$10,000 investment in ICA would have tripled to \$30,974.** (See chart below.)

## If held:

- **three years after the bear market, or 8/12/85, the investment would have grown to \$64,901 for ICA, compared to \$45,094 for the S&P 500.**
- **five years after the bear market, or 8/12/87, the investment would have shot past the \$100,000 mark to \$118,667 for ICA, compared to \$85,607 for the S&P 500.**

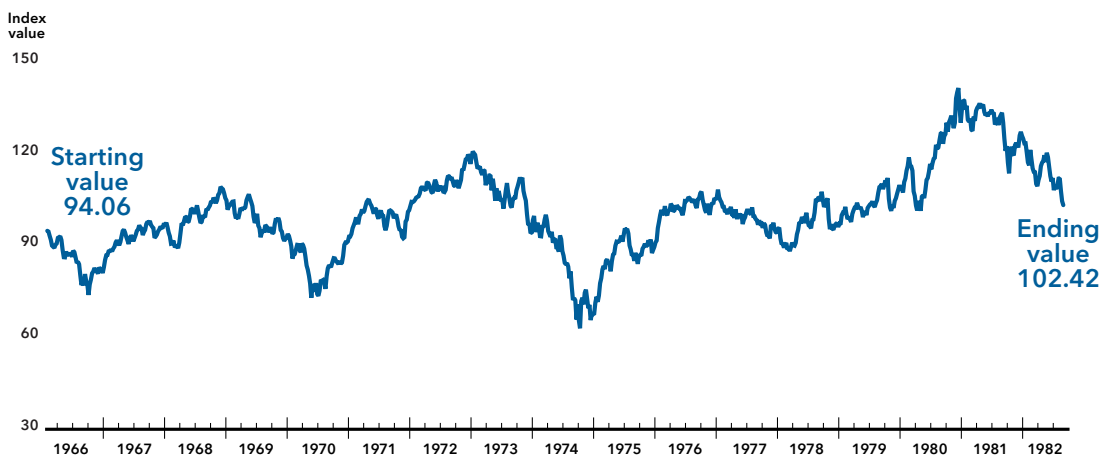
## \$10,000 hypothetical investment in ICA and the S&P 500

For the period 2/9/66 to 8/12/82 (plotted monthly; distributions reinvested)



## S&P 500 weekly price changes

From 2/9/66 to 8/12/82 (without dividends)



Sources: Capital Group and S&P Dow Jones Indices LLC

# The 2000s – March 24, 2000, to March 9, 2009

The 2000s were filled with challenges for investors. With the internet bubble's end, 9/11 attacks, corporate scandals, housing bubble's burst, banking collapse and global recession, the 2000s bear market hit bottom in 2009.

This period was especially rough, with two separate market declines of about 50% or more and another of about 20%.

**Over this rocky stretch, a \$10,000 investment in ICA would have fallen to \$7,273. The same amount in the S&P 500 would have dropped in value to \$5,200.** (See chart below.)

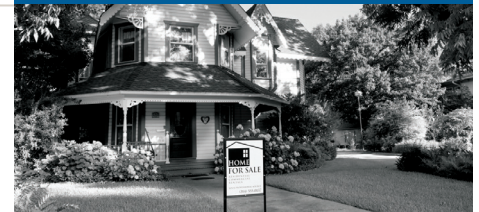
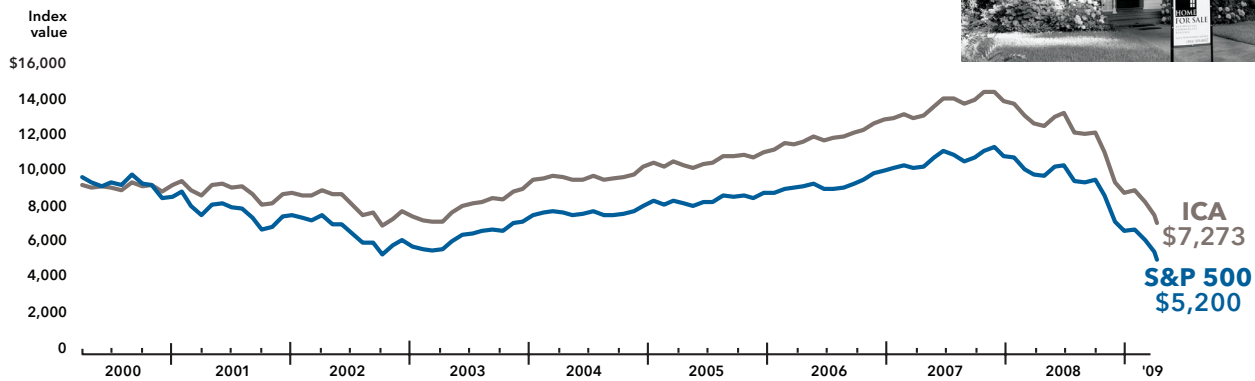
But after this extremely challenging period came an extended bull market that saw the market rise 400%.

**If held:**

- **three years after the bear market, or 3/9/12, the investment would have grown to \$13,774 for ICA, compared to \$11,223 for the S&P 500.**
- **five years after the bear market, or 3/9/14, the investment would have grown to \$19,724 for ICA, compared to \$16,063 for the S&P 500.**

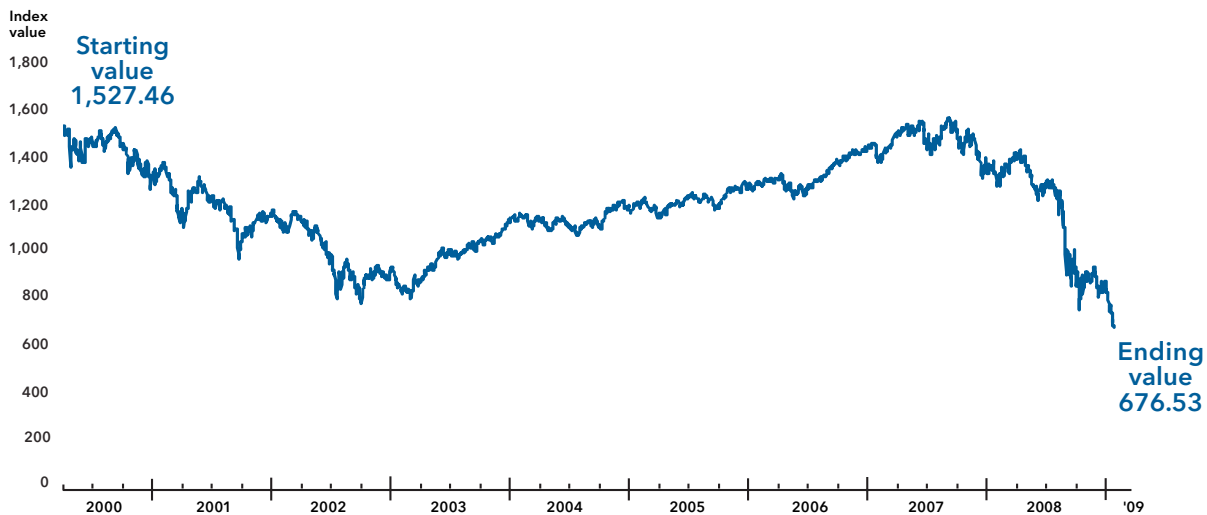
## \$10,000 hypothetical investment in ICA and the S&P 500

For the period 3/24/00 to 3/9/09 (plotted monthly; distributions reinvested)



## S&P 500 weekly price changes

From 3/24/00 to 3/9/09 (without dividends)



Sources: Capital Group and S&P Dow Jones Indices LLC

# How to cope with a market decline

Although they're the last thing most investors want to experience, stock market declines are a natural part of investing. How you react to volatile markets will play a crucial role in your long-term investment success. Below are a few steps you may want to take when the market gets bumpy.

## Talk with your financial professional

If you're concerned about current market conditions and its effect on your long-term investments, the first thing you should do is contact your financial professional. You may want to set up a time to review your investment goals, time horizon, risk tolerance and financial circumstances. However, just because the market has changed doesn't mean your strategies or investments should. Unless your financial situation has changed significantly, chances are you would be best served over the long haul by staying with your original plan.

## Put time on your side

Regardless of what you and your financial professional decide to do, be prepared for the fact that the market could get worse before it gets better. During times like these, short-term fixes – like selling your investments – may seem like an extremely tempting and easy solution. The downside of getting out is that it's almost impossible to determine when you should get back in. In fact, as the charts in this brochure show, investors in ICA who had the courage to stay the course were in a position to participate in any recovery.

## Buy at lower prices

For long-term investors, there are many reasons to view a market decline as a glass half full. Depending on your personal situation, one thing you might consider is buying more shares of your mutual funds while the prices are lower.

## Invest regularly

If you want to take advantage of buying low but are uncomfortable with diving in all at once, consider setting up a regular investment program. This strategy – known as dollar cost averaging – calls for investing the same amount at consistent intervals, such as once a month or every quarter. Although it doesn't guarantee a profit or protect against loss, it's an excellent way to take advantage of down markets. Since you are investing regularly, you end up buying more shares when the price is down. Of course, to make this strategy work, you have to be willing to continue making investments when stock prices are declining and stock market news is negative.

Capital Group, home of American Funds, has helped investors pursue long-term investment success since 1931. Visit us at [capitalgroup.com](https://www.capitalgroup.com).

<sup>1</sup> Source: Bureau of Labor Statistics (estimated).

<sup>2</sup> Source: Federal Reserve Economic Data.

<sup>3</sup> Source: Federal Reserve Bank of St. Louis Review, May/June, Part 1, 2008.

<sup>4</sup> Source: The Wall Street Journal, "Delinquent Mortgages Hit Record Level," March 5, 2009.

**Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing. If used after December 31, 2023, this brochure must be accompanied by the most recent Quarterly Statistical Update.**

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