American Funds®

The right choice for the long term®

Rising above the herd

Painting by Gerald Lazare

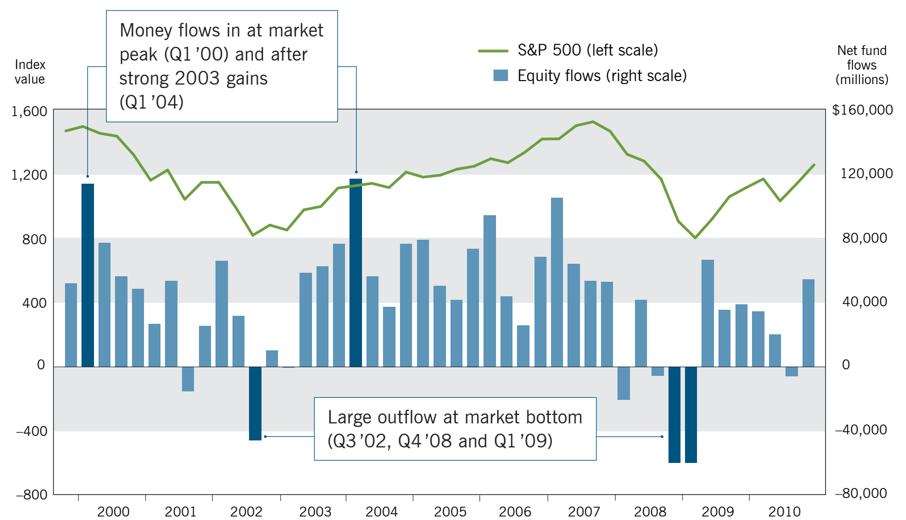
More than 12,000 years ago, Native Americans developed a highly efficient hunting strategy that took advantage of a buffalo’s instinct to move in herds. The hunters would cause a panic that allowed the Indians to drive the herd over cliffs called buffalo jumps. There the buffalo, rendered immobile by the fall, would meet their demise.

A time to stand your ground

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 flows during various stages of the market cycle. As you can see, investors flocked into the market when stock prices rose and sold their stocks when prices significantly declined.

The impact of rising and falling stock prices on investor behavior



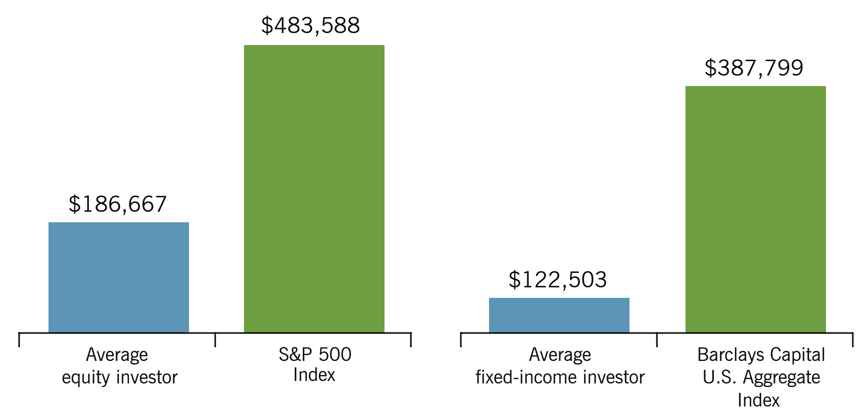
Sources: Index data — Standard & Poor's; equity flows data — Strategic Insight, based on flows into domestic/international equity funds and ETFs.

A reason to avoid going with the flow

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 (12/31/89–12/31/09)



Source: Average equity and fixed-income investors — Dalbar. Dalbar uses data from the Investment Company Institute, Standard & Poor's and Barclays Capital Index Products to compare mutual fund investor behavior with an appropriate set of benchmarks. These behaviors are then used to simulate the "average investor." Ending values for hypothetical equity and fixed-income investor investments are based on average annual returns.

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. The Standard & Poor's 500 Composite (S&P 500) Index and Barclays Capital U.S. Aggregate Index are unmanaged, and results do not reflect the effect of sales charges, commissions or expenses.

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.

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