

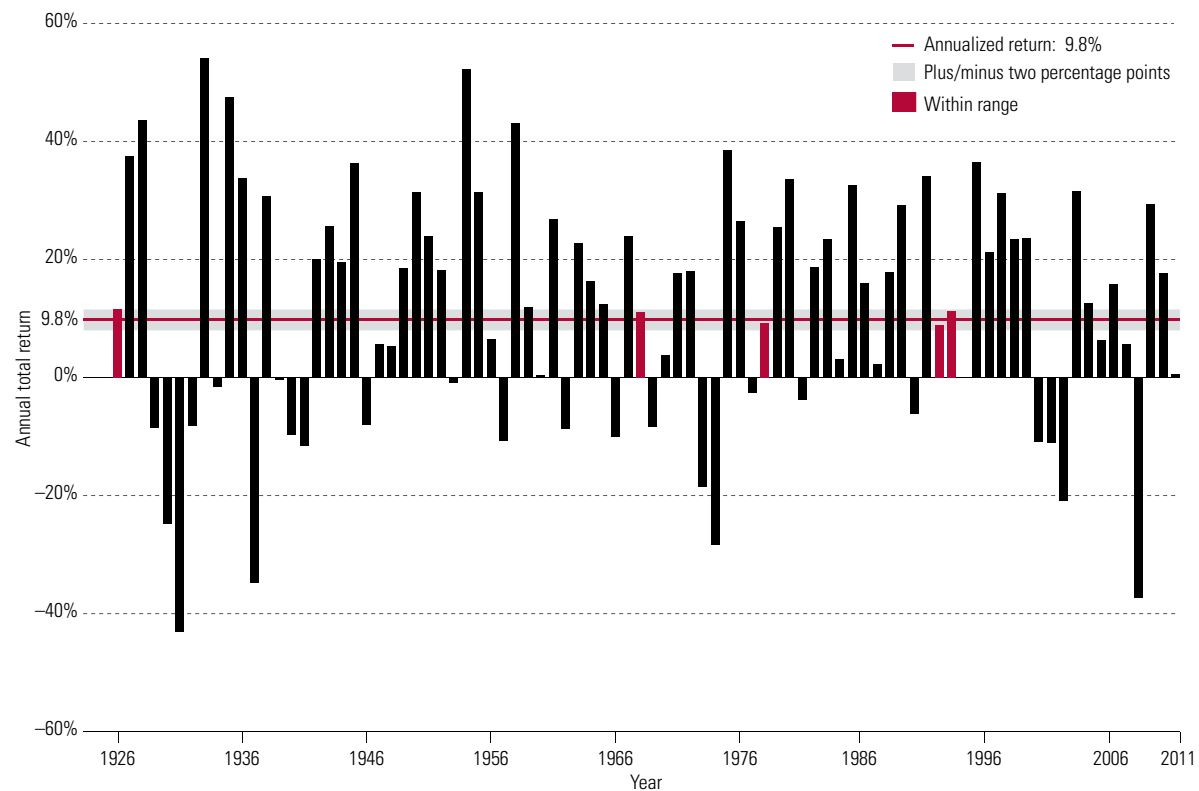
Vanguard®

When will we get back to average market returns?

INVESTOR | education

U.S. stock market, 1926–2011

Returns fell within two percentage points of the annualized return of 9.8% in only 5 out of 86 years.



U.S. stock market returns based on S&P 500 Index for 1926–1970 and on Dow Jones Total U.S. Stock Market Index for 1971–2011. Assumes all distributions were reinvested. Past performance is not a guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Sources: Standard & Poor's, Dow Jones, and Vanguard.

Average total returns in the stock and bond markets are often cited in financial circles, perhaps giving lay investors the false impression that these returns are the norm. In reality, there have been few years when either stocks or bonds delivered returns that are even close to market averages.

Financial markets, particularly stocks, are inherently volatile over the short term. To benefit from long-term market performance, investors should temper their expectations and stay the course.

What does this mean to me?

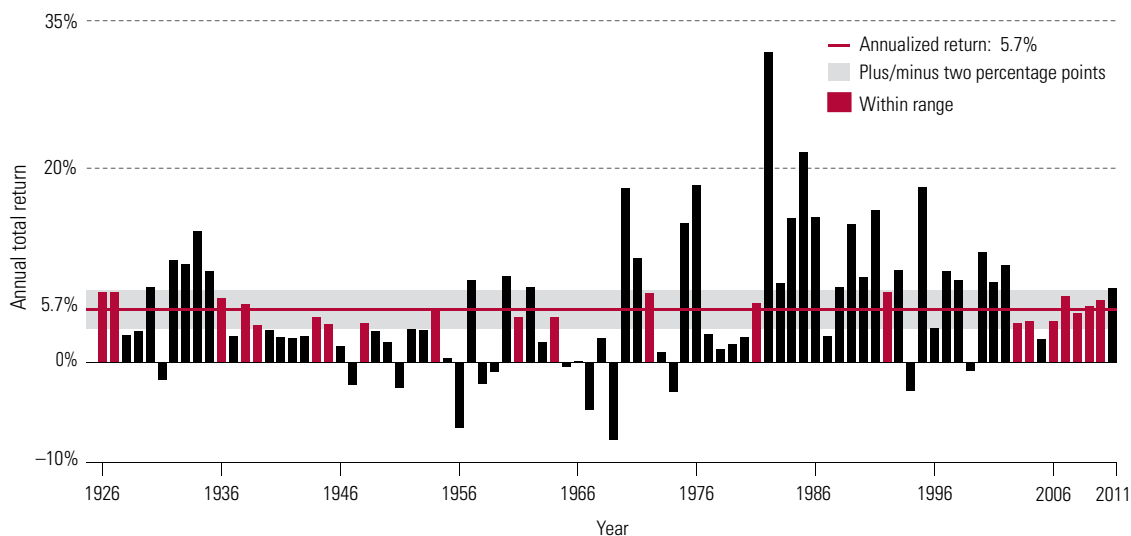
Temper your expectations. As rare as it is for either the stock or bond markets to deliver returns near their historical averages, it's even more rare when both stocks and bonds have done so in the same calendar year. In fact, that's happened only three times (1926, 1968, and 1992). Investors should never expect the average return in any given year or even over intermediate time periods.

Understand the risk/return trade-off. The higher the return potential of a given asset class, the higher the risk. Investors who understand this will make more appropriate asset allocation decisions based on their goals, time horizon, and risk tolerance.

Stay the course. While volatility is the norm, market fluctuations tend to cancel each other out over the long term. While there is no such thing as a guarantee in the financial markets, staying invested over the long run gives you a higher probability of capturing the markets' long-term averages, which may help you meet your financial objectives.

U.S. bond market, 1926–2011

Returns fell within two percentage points of the annualized return of 5.7% in 21 out of 86 years.



U.S. taxable investment-grade bond market returns based on intermediate-term government bonds data from Ibbotson Associates for 1926–1976 and Barclays Capital U.S. Aggregate Bond Index for 1977–2011. Assumes all distributions were reinvested. Past performance is not a guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Sources: Ibbotson Associates, Barclays Capital, and Vanguard.

All investments are subject to risks. Investments in bonds are subject to interest rate, credit, and inflation risk.

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