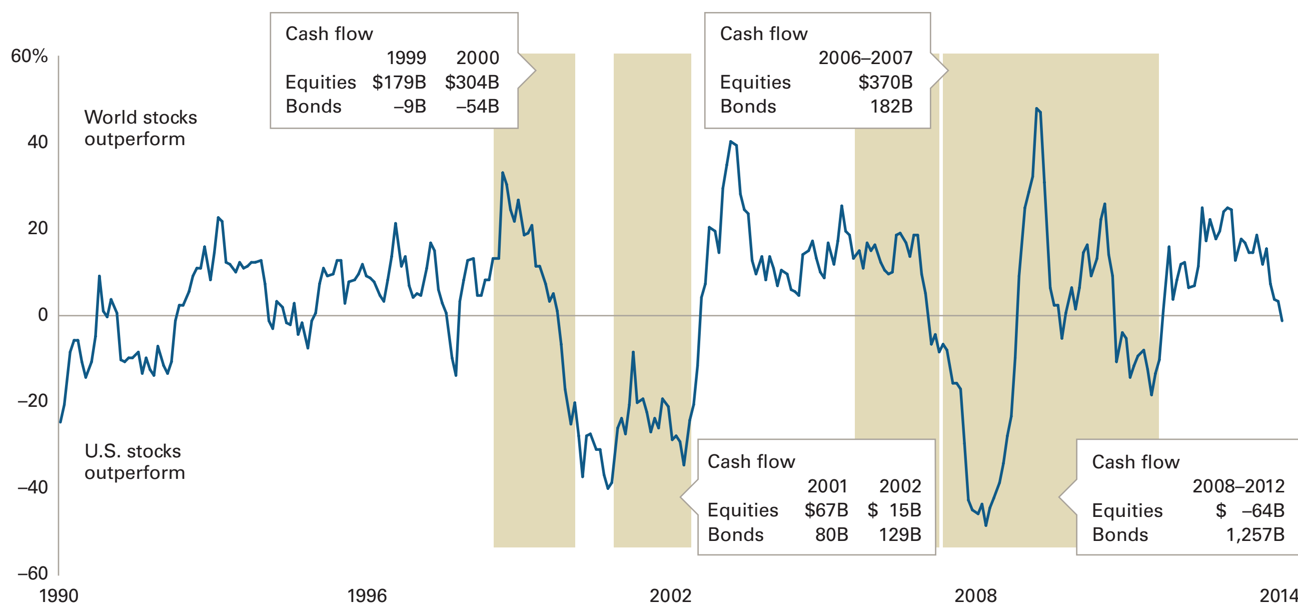
Chasing high performers may be hazardous to your wealth

In hopes of maximizing returns, some people select investments based primarily on their recent performance. The chart below illustrates this follow-the-crowd mentality.

For example, from 1999 to 2000, there were extreme cash flows into equities following five years of 20%+ gains by the Standard & Poor's 500 Index. But returns for the S&P 500 Index were –9.10% in 2000, –11.89% in 2001, and –22.10% in 2002.

Rolling 12-month excess returns* total world stock market versus U.S. bond market,** 1990–2014



Sources: Vanguard Investment Strategy Group, MSCI, and Barclays. Date label as of December 31 for each year.

* Excess return is the difference between the return of broadly diversified world stocks and U.S. bonds.

** World stocks consist of the MSCI All Country World Index, and U.S. bonds consist of the Barclays U.S. Aggregate Bond Index.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

All investing is subject to risk, including the possible loss of the money you invest.

Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments.

Investments in stocks issued by non-U.S. companies are subject to risks including country/regional risk and currency risk.

The bottom line:

Past performance is not necessarily indicative of future results. Following the crowd may compromise your long-term investment returns.

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