



August 8, 2011

A message from the vice chairman of Capital Research and Management CompanySM

Dear fellow investors,

The past few days have been very difficult for investors. The steep one-day losses on top of the volatility of the past few months and the decision by Standard & Poor's to downgrade the credit rating of long-term U.S. government debt have been unnerving. I've been in the investment business for more than 40 years, and I wish I could tell you that living through periods like this gets easier with practice, but it doesn't. We all know that we should stay focused on the long term, but I know how difficult that can be in tumultuous times such as these.

Still, over the years, I have learned that one of the best things any investor can do is step back and put the markets' often chaotic behavior into a broader context. I know how hard that is, but I also know it's crucial to long-term investing success.

For many investors, the context for today's market is 2008. This is not 2008. Recent losses in global equity markets notwithstanding, there are major differences between then and now. The major U.S. banks are in much better shape than they were when the housing market collapsed. Today economic growth is weak, but it is positive. In 2008 stock prices often seemed disconnected from economic reality. Today corporations are producing solid earnings even in a weak economy. As an investor, I find that reassuring.

What has and hasn't changed

When deciding how to invest, I ask myself what's changed and what hasn't. Interestingly, the two things that seem to be behind much of the recent unease in the markets are things that *haven't* changed much in the past year: the European debt crisis and the situation in Washington, D.C.

Concerns over Europe's sovereign debt troubles are certainly justified, but they're not new. Whether Greece, Portugal and Ireland, or Spain and Italy, the basic problem — how to handle the debt that hangs over Europe — hasn't changed. In fact, European monetary authorities seem more determined than ever to avoid a default. At American Funds, we've watched the European debt situation closely from the beginning and continue to factor it into our investment decisions.

Standard & Poor's actions were also disquieting. But again, context helps me as an investor. I was investing in the late 1970s when we first heard the term "stagflation" to describe inflation with no growth. I remember 1981, when interest rates on the 10-year U.S. Treasury bond moved above 15.5% and it seemed rates would continue to climb.

Of course, knowing that things have worked out in the past doesn't necessarily soothe nerves today. However, contractions are a natural part of any market cycle. In fact, during my years as an investor, the Dow Jones has suffered a one-day loss of more than 4% of its value 36 times. That doesn't make the current losses easier to take, but it helps me put them in perspective.

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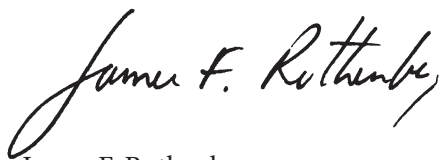
The lure of the sidelines

If I could share one thought with you while you're watching the news on TV or reading the paper, it would be this: Remember that an index, whether the S&P 500 or the Dow Jones, isn't a measure of *your* portfolio. It's what your portfolio is doing, not what "the market" is doing that matters. A globally diversified portfolio of stocks and bonds doesn't move in lockstep with any single market or index. A downturn in one market — whether U.S. or international, stock or bond — can be cushioned by an opposite or lesser move in a different market.

Still, I know that during a period of volatility the lure of the sidelines can be very strong. In fact, probably the number one question on every investor's mind today is "What should I do now?" Every individual's situation is different, but I believe the answer to the question is the same for everyone: Talk to your financial adviser. Your adviser can help you stay the course or make the necessary adjustments to maintain a well-diversified portfolio designed to help you reach your financial goals.

I noted at the beginning of my letter the importance of putting events into context, and I believe the most important context of all is simply time. During the four decades I've been at American Funds, I have seen strong bull markets and tough bear markets, huge gains in a single day and big one-day drops. Through all the ups and downs, the nation's economy has expanded, our standard of living has improved, and individuals who stayed invested in a well-diversified portfolio of stocks and bonds were positioned to reach their financial goals. To me, that is the most important context of all.

Cordially,



James F. Rothenberg

Vice Chairman

Capital Research and Management Company,
investment adviser for American Funds

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