VLFAlert

Value Line funds

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Dear Fellow Shareholder,

Thank you for choosing Value Line Funds as a part of your diversified investment portfolio. For over half a century, Value Line Funds has championed sound investment principles and helped thousands of investors accomplish their financial goals with our actively managed family of mutual funds.

We hope you enjoy this edition of the VLFAlert and thank you for your continued support.

Bear Markets: What History Tells Us and What You Should Know Now

The U.S. equity market had its worst first half of a year since 1970, erasing nearly all the gains of 2021, with the S&P 500® Index officially entering a bear market on June 13, 2022 amid worries about the impact of higher interest rates, inflation, slowing economic growth and geopolitical risks. But perspective is critical. While they can impose challenges to your financial goals, we need to remember that bear markets are a normal part of stock investing. The questions that matter most now are: how long might this one last? And what should you do or not do about it? Here's what history tells us about bear markets—what they are and why they're different from corrections—and some tips, especially for those near or in retirement.

What History Tells Us about Bear Markets

- A bear market, simply put, is an equity market decline of 20% or more from the market's most recent high. From a near-record high on January 1, 2022 through June 30, 2022, the S&P 500® Index declined 19.96%.
- Historically, bear markets have appeared every six years on average, with the S&P 500® Index experiencing 17 bear markets since 1926, including four times since the start of the bull market that began in March 2009—most recently in March 2020.[1]
- Bear markets tend to see a shift in investors' sentiment toward pessimism about economic growth and doubt about the direction in which markets may move—even when stocks may be individually reporting generally good news and growing earnings. During a correction, on the other hand, defined by a market decline of 10% to 20%, investors tend to quickly take advantage of lower prices because they expect stocks to rise again soon.
- Half of the S&P 500® Index's strongest days in the 20 years between December 2001 and December 2021 occurred during a bear market. Another 34% of the S&P 500® Index's best days took place in the first two months of a bull market—before it was clear a bull market had begun.[2]

How Long Might this Bear Market Last

Bear markets have historically varied in length but tend to be significantly shorter than bull markets. Some last for a few years, such as the one driven by the dot.com bubble burst from 2000 to 2002; others last only a few months. Since 1966, the longest bear market lasted about 2½ years; the bear market in early 2020, prompted by the beginning of the COVID-19 pandemic, lasted only 33 days. The average bear market lasted approximately 15 months.[3] Importantly, stock markets have always recovered—every time.

What Investors Should Do…and Not Do

Only time will tell if the 2022 downturn in the S&P 500® Index was a bear market within the long-running secular bull market that began in March 2009 or not. A variety of factors will affect market direction—for example, policymakers' effectiveness in managing inflation; geopolitical events, such as the Russia/Ukraine war; and investors' expectations around those factors. Either way, a bear market is not a reason to stop investing.

Here are some actions you might want to consider.

- **Use dollar-cost averaging.** This means investing a specific amount of money at regular intervals regardless of how the stock market is performing. With this approach, you will be buying more shares when prices are low and fewer shares when prices are higher. If you shift your perspective from one of "throwing good money after bad" toward focusing on potential gains by buying more shares of funds with the same dollars you've always invested, bear markets can be good opportunities. To set up automatic investing with the Value Line Funds, use our Valu-Matic Investment Program Application found on our website under the Forms & Literature tab.
- **Scale back or skip investment portfolio withdrawals.** If you are already retired, especially in the early years of your retirement, consider using your short-term liquid reserves to cover near-term expenses rather than making withdrawals from your investment portfolio to pay living expenses. Using this strategy, you may be able to avoid selling investments when the market is down, potentially extend the life of your savings and increase your ability to recoup any bear market losses.
- **Focus on diversification.** A balanced, diversified portfolio, both by asset class and within the equity market itself, can't guarantee you'll never have losses, but the fundamental logic underlying diversification is still sound, potentially providing

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portfolios a downside cushion. With meaningful events and newsworthy developments during the first three quarters of 2022 in several drivers of the capital markets, we encourage you to use these last months of the year to review your investment portfolio and consider a broader diversification strategy by including additional equity, hybrid or fixed income Value Line Funds in your investment portfolio—it's a time-tested, valuable strategy, bear market or not.

- **Remember that some stocks usually weather bear markets better than others.** Some sectors will likely decline less during bear markets, such as health care, utilities and consumer staples in demand regardless of economic conditions. And high quality companies with solid balance sheets and durable competitive advantages tend to be less vulnerable to swings in national and international economic conditions, with their stocks tending to be less volatile than the average stock in the S&P 500® Index. The Value Line Funds equity managers seek to invest in "steady-eddy" companies that methodically produce results, typically with the intention of keeping them in the portfolio for many years if their performance remains on track, regardless of market conditions.
- **Get out of the habit of checking your balances frequently.** Going through a stretch of disappointing equity market returns can be stressful. So, while it is important to stay informed, checking investment balances daily, weekly or even monthly doesn't help ease that stress. And remember, you haven't actually lost money unless or until you sell. At the Value Line Funds, we recommend reading the quarterly commentaries and twice-annual shareholder reports we provide for useful information presented from a bird's-eye view.
- **Revisit your risk tolerance.** If the bear market of 2022 caused you extreme anxiety, then maybe your risk appetite is smaller than you previously thought. This may be especially true if you are approaching retirement or in the early stages of retirement. Speaking with your financial adviser, who hopefully understands your situation and also brings an objective view to decision making, can be helpful.
- **Keep doing what you're doing—with a long-term perspective.** For many investors, seeing negative signs in their shareholder reports can be alarming and prompt an emotional urge to pull their money out to avoid further losses. But this is not an effective strategy. You've likely heard the phrase "time in the market is better than timing the market." It's been proven study after study after study. The lessons from each are to stay invested and hang on to your long-term strategy.

Finally, if it turns out the 2022 bear market lasts the average length of 15 months or so (something we won't know until after the fact despite comparatively stronger third quarter 2022 U.S. equity performance), then keep in mind that by the time you are reading this VLF*Alert* in the fourth quarter of 2022, you may only have to "bear" it until early 2023. Of course, past performance is no guarantee of future results.

Equally important is what not to do in a bear market.

There will be bear and bull markets—and, yes, bear markets test the resolve of virtually all investors. But your retirement needs to thrive past economic challenges. Selling assets simply because their prices went down during a bear market is almost never a prudent move. And trying to time the bottom is generally a losing battle. Bottom line—bear markets are not unusual. They are common, inevitable and natural temporary occurrences in the stock market—and so are their recoveries. If you already have a well-diversified mix of equities, fixed income and cash that is consistent with your investment timeline, financial needs and risk tolerance, bear markets should not be a reason for you to deviate from your financial plan. Staying the course, staying calm and doing nothing may be the best strategy of all to weather a downturn.

Check out our News & Commentary at vlfunds.com for the latest on the Value Line Funds.

For more mutual fund information, call today: 800.243.2729 or visit our website at www.vlfunds.com

[1]*Fidelity, "Bear market basics," June 28, 2022.* [2]*Ned Davis Research, 12/21. Time period referenced is 12/16/01–12/15/21.* [3]*Schwab Center for Financial Research, "Bear Market: Now What?," July 13, 2022.*

Past performance is no guarantee of future results. You should carefully consider investment objectives, risks, charges and expenses of Value Line Mutual Funds before investing. This and other information can be found in the fund's prospectus, which can be obtained from your investment representative or by calling 800.243.2729. Please read it carefully before you invest or send money.

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