Stop Trying to Time the Market

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There is perhaps no more widely used phrase in the investment world than…***you can't time the market***. This warning has been a hallmark of Wall Street lore for as long as public markets have existed and has been ingrained into the thinking of nearly every investor from the first day they begin investing. Despite the near universal acceptance of this time-tested advice, very few actually heed it. This is evidenced by the abysmal investor returns reported by research firms such as Morningstar, DALBAR, and S&P annually. Their conclusions are always the same. Investors' emotional decisions routinely cause them to underperform a simple buy and hold strategy.

The culprit is something we are all likely to agree upon. We are human. Let's face it, after a year like 2020, many investors have become extremely emotional around their investments causing more and more to try their luck at market timing. The popularity of day trading, cryptocurrencies, and many other speculative investment strategies has reached levels we haven't seen in more than two decades. Stories of breathtaking short-term gains are now commonplace, but perhaps even more influential to our decision making is these stories are occurring in many of our daily conversations with friends. Of course, no one talks about the huge losses they suffered. Peer pressure is not something relegated to grade school activities, but can also be a major factor in actions taken as adults. For many who still consider themselves long-term investors it is weighing on their decisions as short-term feelings (*fear or greed*) about their investments are now heavily influencing their decision making process.

During these highly emotional times it can be reassuring to remind yourself what the ultimate purpose is of your investments. For most, it is to help grow (or preserve) your wealth to a level where you will ultimately be able to consider yourself financially independent. Most investors accept the fact this process is slow and methodical, so preventing yourself from making major mistakes along the way is crucial to achieving this goal. Short-term get rich schemes that sound too good to be true, usually are.

The current market environment is causing most investors to experience one of two feelings. They are either afraid of investing (or staying fully invested) right before a possible major market crash or missing out on the seemingly endless future gains that lie ahead. If we look back at history, we will see that over very long-term periods of time ignoring these emotions has been handsomely rewarded.

Imagine a scenario where a couple of investors want to save $60,000 annually. Now let's say one of them is the luckiest investor in the world and is able to time the market perfectly by investing the $60,000 at the bottom of the market every year. On the other hand, let's say one of them was the unluckiest investor ever and invested at the top of the market every year. Finally, let's assume the last investor just hit the easy button and invested $5,000 monthly every year. Using the SPDR S&P 500 ETF (SPY) as our proxy for the stock market we can see how each performed going back to its inception in 1993.

- Perfect market timing: $8,012,888 (10.0% annualized return)
- Worst possible market timing: $6,532,397 (8.8% annualized return)
- Consistent monthly investing: $7,311,222 (9.4% annualized return)

Surprised by the results, or should we say lack of discrepancy between the results?

This relative lack of benefit of perfectly timing the market hopefully reminds long-term investors that ***time in the market***, is more important than ***timing the market***. It illustrates that investors who truly believe stocks generally go up over very long periods of time should not be concerned with markets in the short-term. Guessing whether the market is going to be up or down 20% each year will not help your long-term results, despite the fact this is where many investors focus their attention. Instead, a disciplined approach that is repeatable year after year is the real secret to long-term investing success.

So…do you really want to try your luck at timing the market?

For those of you who are convinced this can't be done, the strategy is very simple. Stick to the plan. While the example above is focused on an investor still in their accumulation phase, the message is still the same even if you are retired and withdrawing money from your portfolio. Stay well diversified and keep following the investment strategy you had in place before the world was turned upside down by the Covid-19 pandemic a little less than a year ago. Adhering to this advice is what it really means to not time the market.

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Business Owners [8]
Dentists [9]
Read More [10]

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