CHATHAM WEALTH MANAGEMENT

WHY INVESTORS SHOULD AVOID MARKET TIMING

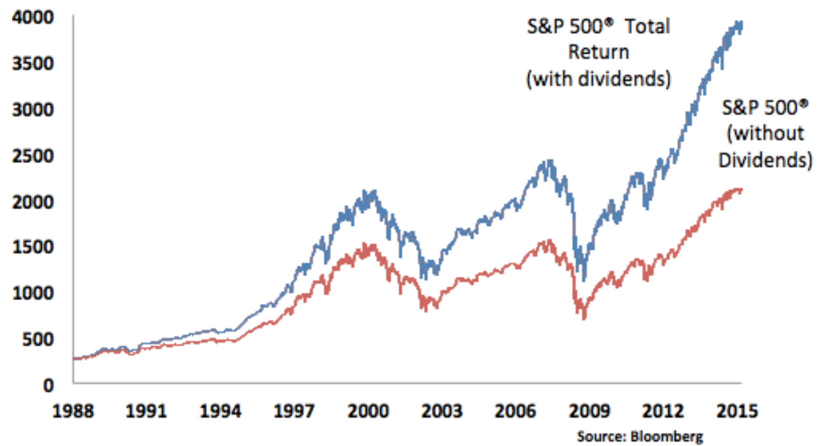
A long-term, total return investment perspective

The Power of Reinvested Dividends and The Effects of Compounding

In the media we often hear about price movements of the major stock market indices like the S&P 500 Index. What we do not hear much about is the raw power of the compounding effects of dividend re-investment.

The chart to the right compares the returns of S&P 500 Price Index to the S&P 500 Total Return index since 1988. The Total Return index includes dividends, assuming these dividends are immediately re-invested back into the underlying S&P 500 components. The net effect is a greatly improved return profile.

You won't hear about this on financial news channel because they talking about daily price movements and not total returns that include compounding dividends.



Missing the Best Return Years Can Negatively Impact Long-Term Performance

S&P 500 Total Return Index - Positive vs. Negative Return Years since 1988

Total Return						
30% or more	1989	1991	1995	1997		
20% to 30%	1996	1998	1999	2003	2009	2013
10% to 20%	1993	2004	2006	2010	2012	2014
5% to 10%	1992	2005	2007			
0% to 5%	1994	2011				
0% to -5%	1990					
-5% to -10%	2000	2001				
-10% to -20%						
-20% to -30%	2002					
-30% or less	2008					

81%
21 Positive Years

19%
5 Negative Years

Short-term volatility is inherent in equity investing, however a review of performance can shed light on the long-term upward trend.

We note that some of the best performing years tend to occur following periods of weak returns.

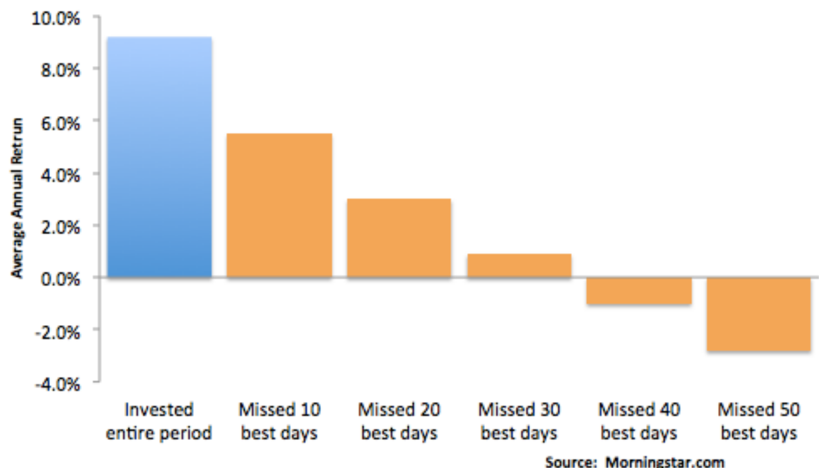
A bull market technically ends when there's a 20% or greater drop from the high point of the S&P 500 or other major index.

Market Timing with Frequent Trading Puts Your Portfolio at Risk of Missing Crucial "Up Days"

One of the biggest risks of marketing timing is missing crucial "Up Days", where the market is rallying upward sharply.

The chart to the right shows that missing the 10 best market days can dramatically reduce your long term returns. In this scenario, average annual returns drop to 5.5% per year down from 9.2% per year.

Market Timers risk missing bull market rallies. These investors could take a hit in market crashes but do not experience the full extent of the subsequent recoveries.



Analysis performed by Michael T. Ryan | http://www.ChathamWealth.com

-All charts are for illustrative purposes only and do not reflect the performance of any Chatham Wealth Management accounts