BARRON'S

FEATURE

The Truth About Timing

By Jacqueline Doherty Updated Nov. 5, 2001 12:01 am ET / Original Jan. 31, 2020 9:43 am ET

Correctly timing the market-getting in just before stocks go up and exiting just before they go down-is the golden dream of many investors.

But financial advisers and others who preach the religion of buy-and-hold investing denounce the concept as a pipe dream. They insist that the average market professional, let alone the typical individual investor, has no clue about the market's next move and that trading in and out can lead to frustration, hefty transaction costs and, sometimes, catastrophe.

The pro-timers counter such arguments by contending that certain combinations of indicators have a good record of calling turning points in the market. And they assert that while buy-and-hold may work in a bull market, it can be a prescription for disaster whenever Wall Street falls captive to the bear -- as seems to be the case now.

Consider that in the last long-term bear market, the Dow Industrials closed at 995 in February 1966 and 16 years later, in August 1982, stood at 777. Anyone who hung in throughout that woeful stretch might have had a throbbing headache by the time the bull returned.

But even during that dour span, there were four periods in which stocks had strong rallies, which respectively boosted the Dow by 32%, 66%, 76% and 38%.

"This is why market timing can be used during times of secular bear markets," says Bob Brinker, publisher of Bob Brinker's Marketimer, a newsletter that advises investors on when they should jump in and out of the market.

Regardless of which camp one agrees with, one of the often-voiced arguments of the anti-timers is worth examining. That argument is that, especially in bull markets, much of any given year's profits are made on its five biggest up days and that anyone who's out of the market on those days -- as a hapless timer might be -- forfeits a huge opportunity.

And, indeed, based on a study done for *Barron's* by Birinyi Associates -- a Westport, Connecticut, invesment-research outfit, it's true that performance minus the five best days is dramatically lower than it would be if an investor stayed in the market for the entire year.

The accompanying table and chart illustrate this point. For example, the S&P 500's 19.53% gain in 1999 shrinks to only 3.98% without the five best trading days. And 1998's return of 26.67% slips to a mere 4.54% without the best days of the year included. In addition, the 29.72% loss the market suffered in 1974 balloons to 42.38% without the five best days. And investors who would have ended the year almost flat in 1970 would have found themselves stung with a 13.65% loss without the year's strongest days.

Worth noting, however, is that if you're dexterous or lucky enough to jump out of the market for the year's five worst days and be in for the rest, you will do far better.

This year, through October 29, if the worst five days for the market (measured by the S&P) are subtracted, the return is a 0.92% loss. While that's not much to boast about, it certainly is a lot better than the actual deficit of 18.03%. (Those out on only this year's five best days would have seen a 32.63% loss.)

And eliminating the five worst days can have a huge impact in years marked by really traumatic stretches. For example, in 1987 -- an annus miserabilis marked by an October crash -- the S&P returned a meager 2.03%. But those out of the market on the worst five days would have seen a return of 60.18%. (Anyone who wasn't in the market on the best five days of that year would have lost 20.09%.)

Table:
[S&P 500 Return]

Overall, the Birinyi study showed, anyone who put one buck into the S&P in 1966 and held it through October 29, would have $11.71 (a 1,071% gain), while those who were in the market for all but the five best days would have had just 15 cents (an 85% loss). But those who were in for all but the five worst days would have $987.12 (an amazing 98,612% rise, aided by the power of compounding).

"This study confirms that your best opportunity for making money in a secular bear market is to identify the cyclical bull-market opportunities within the very long-term downtrend," says Brinker, who was told of Birinyi's findings.

The market-timing advocate, who lives in Henderson, Nevada, and whose Moneytalk radio show is syndicated nationally, has a model that looks at monetary policy, the economic cycle, the S&P 's valuation, investor sentiment and other technical factors.

Throughout the 'Nineties, Brinker was recommending that investors allocate 100% of their money to equities. Then on January 8, 2000, he issued a long-term sell signal and suggested putting 60% in cash, 25% in U.S. equities and 15% in foreign stocks. In August 2000, he slightly increased the cash recommendation to 65% and cut the foreign equity allocation to 10%, keeping U.S. stocks at 25%. "I think the probabilities are we've entered a secular bear market," that could last 10-20 years, he warns.

Of course, no market-timing model is perfect. Brinker didn't urge investors to get back into the market after the post-September 11 swoon, which was followed by a powerful short-term rally. "Our indicators have improved significantly, but not sufficiently enough to issue a buy signal," he says.

But Brinker advises holding on to quality holdings because he believes that a cyclical bull market will begin no later than next year.

When it does, investors will have a better opportunity to trim their exposure to equities before the secular down market resumes, he adds.

E-Mail: jacquelinedoherty@barrons.com

BARRON'S TABLE

S&P 500 Return

Updated Nov. 5, 2001 12:01 am ET / Original Jan. 31, 2020 9:44 am ET

The annual changes in the benchmark average under the three scenarios for every year since 1966.

Year	Annual Performance	Without 5 Best days	Without 5 Worst days
1966	-13.09%	-21.55%	-3.53%
1967	20.09	11.66	28.67
1968	7.66	-1.16	15.59
1969	-11.36	-18.64	-3.97
1970	0.10	-13.65	13.36
1971	10.79	0.26	19.40
1972	15.63	8.42	22.49
1973	-17.37	-27.23	-5.97
1974	-29.72	-42.38	-18.06
1975	31.55	15.86	45.97
1976	19.15	9.83	28.74
1977	-11.50	-17.30	-4.72
1978	1.06	-10.12	10.88
1979	12.31	2.17	24.07
1980	25.77	11.09	43.64
1981	-9.73	-20.06	1.29
1982	14.76	-4.49	30.80
1983	17.27	5.12	28.89
1984	1.40%	-10.64%	10.19%
1985	26.33	15.17	34.64
1986	14.62	3.41	34.30
1987	2.03	-20.09	60.18
1988	12.40	-2.70	35.11
1989	27.25	14.79	46.49
1990	-6.56	-17.82	7.42
1991	26.31	10.05	41.93
1992	4.46	-2.95	12.61
1993	7.06	-0.90	15.95
1994	-1.54	-9.16	7.64
1995	34.11	25.14	42.90
1996	20.26	9.78	36.20
1997	31.01	11.98	55.19
1998	26.67	4.54	55.92
1999	19.53	3.98	35.31
2000	-10.14	-25.28	8.64
2001*	-18.03	-32.63	-0.92

*Through October 29.

Source: Birinyi Associates