January 17, 2019

Re: Why Market Timing Doesn't Work

Today's market conditions may feel a bit uncertain. Between international trade tensions, changes from the Federal Reserve, and increased volatility, some investors react emotionally and may want to make changes to their portfolio.

Ultimately, changing your asset allocation based on market fluctuations can be a hasty decision. If you guess wrong, you may end up missing out on the best market days. With that in mind, here are some ways that trying to time the market can negatively impact your returns.

Timing the Market vs. Time in the Market

Research suggests that investors who buy and sell stocks during periods of market volatility may see lower returns than investors who stick with an established investment strategy.

For example, imagine you invested $10,000 in the S&P 500 on December 31, 2003, and then took it out on December 31, 2018. Here's where your assets could be[1] if you:

- Left your investment untouched: $30,711
- Missed the 10 best performing days: $15,481
- Missed the 40 best performing days: $4,943

In other words, missing just a few days over 15 years could mean the difference between losing over $5,000 and gaining more than $20,000.

Some data indicates that an investor would need to accurately time the market 74% of the time to earn more than someone who stays in the S&P 500. Considering the same study claims that only 47% of "market timing experts" predictions are correct, timing the market just doesn't appear to add up.[2]

Clearly, for most investors, *time in the market* is more important than *timing the market*.

Investing with Patience

Of course, volatility and declines can be uncomfortable. But corrections are a normal part of market cycles. Consider the Dow Jones Industrial Average. Although the index moves between highs and lows, it has never failed to grow in a 20-year period.[3] In other words, investors who don't try to time the market may see greater long term returns. Of course, past performance does not guarantee future results, but the research shows that successful investing may stem from a patient and disciplined strategy.

Bottom line

Trying to predict how markets may act and making emotional investment decisions can leave your portfolio in a vulnerable state. We know that market timing can feel tempting, but it can be virtually impossible to do so accurately.

Instead, you may consider a personalized investment strategy that allows for prudent adjustments when warranted. Finding the right approach—and sticking with it—can leave you in a much better position to pursue your financial goals.

If you have any questions about the information we've presented or want to know how recent economic events may affect your investments, please let us know. We would be happy to answer your questions and discuss any concerns.

Kind Regards,

The Team at GENERATIONAL WEALTH MANAGEMENT

Footnotes, disclosures, and sources:

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Past performance does not guarantee future results. The Dow Jones Industrial Average (DJIA) is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Consult your financial professional before making any investment decision.

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[1] https://www.putnam.com/literature/pdf/II508.pdf

[2] https://money.usnews.com/investing/buy-and-hold-strategy/articles/2018-06-19/no-right-time-for-market-timing

[3] https://www.cnbc.com/2018/04/18/trying-to-time-the-market-is-a-losing-game.html