NOLAN WEALTH MANAGEMENT
WEALTH MANAGEMENT SOLUTIONS

On The Mark

Time in vs Timing the Markets

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The stock market is off to a rocky start this year. Higher volatility can be a source of uncertainty for even the most seasoned investors. In this issue we hope to provide some historical perspective on the anatomy of the markets and the impact of moving out of markets during periods of turbulence.

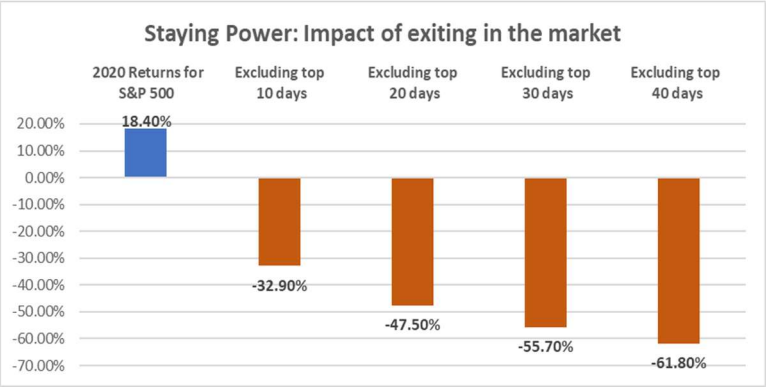
Volatility is a Feature and Not a Bug in the Market

History tells us that market volatility is a feature of how the market functions and not a bug. Research by Ned Davis on the anatomy of the stock market (Dow Jones Index) highlights the frequency of market declines since 1900[1]. This research found that on average, every year the market suffers three 5% corrections, one 10% correction, and a decline of 20% every three years or more. Market history also suggests that most dips (declines of 5%) in the Dow Jones Industrial Average don't turn into anything serious.

Time in vs Market Timing

Since market pullbacks are frequent, avoiding just a few of them could potentially add to investment results. However, attempts to avoid pullbacks more often lead to missing out on significant advances. A reason is that market volatility is often clustered with the big moves in the market, both up and down, occurring within days of each other.

As an example, an investor who remained fully invested in the S&P 500 Index during 2020 saw a total return of 18.4%. On the other hand, if an investor sold when the market dropped, not only would they have possibly avoided some of the losses, but they could have also potentially missed the trading days with the greatest gains. Research shows that simply missing the top 10 trading days in 2020 would have led not only to giving up the gains, but an investor would have experienced a loss of 32.9%[2].



Source: Schwab Center for Financial Research

This phenomenon is not isolated to 2020. Over the last fifteen years, a time period which includes the great financial recession, as well as the COVID-driven recession, an investor who remained invested in S&P 500 index would have generated an annualized return of 10.66%[3]. However, simply missing the top 10 days would cut returns by 50% to 5.05% annualized returns. The results become more dramatic when simply missing the top 30 days leads to annualized losses of -1.18%.

A Key to Long-Term Investing Success

Understandably, the market's normal ups and downs can be stressful. While it's natural to have a reaction to market volatility, it's also important to understand the potential impact of that reaction as well. One of the most common mistakes investors make is to sell their stocks when markets are down, creating realized losses from paper losses, and then being left on the sidelines when markets rebound. The key to long-term investment success is the decision to be invested and to stay invested.

[1] Ned Davis Research: The Anatomy of the Stock Market (DJIA) declines from 1900. Data: 1/02/1900-2/14/2022
[2] Charles Schwab: Is there a perfect time to invest? Bah! Humbug! Results are based on daily total returns from 2020, from the first trading day of January 2020 to the last trading day of December 2020.
[3] Putnam Investments: Time, not timing, is the best way to capitalize on stock market gains. 12/31/06-12/31/21

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The Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market.

The S&P 500 Index is a market-capitalization-weighted index of the 500 largest publicly-traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index. The index is widely regarded as the best gauge of large-cap U.S. equities. Investors cannot directly purchase an index.

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