"The Market: When to be in, when to be out"

By Tommy Williams, CFP®

In my message to you last week I reported that the stock market, as measured by the performance of the Standard & Poor 500 Index, experienced a total return of 17.5% per year over the 10-year period of 3/10/09 to 3/9/19. (Total return means that the calculation includes dividends paid by all the stocks as well as the share growth of the stocks themselves). That is incredible! I probably don't have to remind you that this 10-year period begins at the bottom – March 9, 2009. We didn't know it on that day, but that was the day the devastating market fall associated with the Great Recession ended. I remember the free fall – I bet you do too. To this day it influences my thinking. From March 9, 2007 to March 9, 2009 the S&P lost 57% of its value. Savings plans decimated, retirements delayed, homes lost as they were foreclosed upon, kids pulled out of college, unemployment lines, etc., etc. It was an incredibly frightening time as we did not know when or how it would end. Would the world economy totally collapse sending social order into chaos? We just didn't know.

Tommy Williams

All the above you know. What I bet you didn't know is a very interesting fact about the ten year climb out of that hole (the climb that included numerous records of all-time highs in the market). If you missed the 20 best percentage gain days over the 10 year "bull" run – that is, 20 days in total, not 20 days per year – the 17.5% annual gain is cut in half to an annual 8.6% annual gain. So, get this, there were 2,517 trading days over the entire 10-year period. Only 20 of these days account for half the gain. That is an amazing fact!

So, what does that mean for you? First off, very few people would bet the farm on the S&P 500 Index alone. However, it is the accepted bellwether indicator of how things are going in our economy. More important, it is incredibly difficult to "market time." That is, get in while things are good and out when things are bad. Imagine your success if you were smart enough to be "in the market" on those high performance 20 days and out on all the bad days. I've yet to meet that smart person – or the mathematical algorithm he/she designed. What you can do is use an old mantra – diversify and rebalance. That forces you to do an extraordinary thing – buy low and sell high. (Though, this is America, so you will not be denied your God given right to follow the crowd and buy high and sell low). With the assistance of a trusted advisor, who has access to quality research, develop a long-term plan and then stick to it. Establish your goals and determine what's needed to meet or exceed them. Unless the fundamentals change, you don't change. If you don't have a long-term horizon – let's say 5 years – you probably should limit your exposure to the stock market anyway. Attempting to pick the best 20 out of 2,517 days is no way to manage your future!!

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