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The Risks of Market Timing

Nobody ever got on a rollercoaster expecting a level ride.

It's the same with investing. Over long periods of time, the financial markets can be remarkably steady – since 1926, stocks have never lost money in any 15-year period[1]—but in the short run, sharp spikes in security prices can be the norm.

So it has been recently, with the stock market (represented by the S&P 500® Index) displaying significant volatility – rising or falling at least 1% uncommonly often.[2]

This volatility suggests that the market can't seem to make up its mind, triggering a bumpy ride for investors – some of whom may be tempted to pull out of stocks and wait for the market to regain its footing.

But is moving assets from your current portfolio to what you think is more stable, "safer" investments really a good idea? Amid such uncertainty, what can you do to keep your cool and avoid making potentially costly, emotionally-driven decisions?

First, Remember Why You Invest

If you're like most investors, you began your investment program with the intent of achieving any number of goals, some long-term, others shorter-term—such as enjoying a comfortable retirement, sending your children to college, buying a second home or supporting your current lifestyle.

You have invested in stocks and bonds to steadily build and preserve wealth over decades. Your long-term strategy did not include trying to jump in and out of the market based on its short-term performance.

Besides, brief, explosive spurts of volatility, both positive and negative, is the norm. Despite periods of stomach-churning market activity—stocks ended 2007 with a decent return.

But an impulsive investor who abandoned the market during one or more of its sharp downturns would have missed the strong, ensuing rebounds.

Market-Timing Approaches Fall Short (US Example)

Strategy:* 1926-2007	Annualized Return	Growth of $100,000
Exit when market declines; Stay out until market has a decent year	8.4%	$72.6 Mil.
Exit when market is "too high" Stay out until after correction (a down year)	8.3	70.7
Remain Invested Through Ups And Downs	**10.4**	**323.9**

This is a hypothetical example. Past performance does not guarantee future results.

*The first approach involved switching from stocks to T-bills following any year in which the stock market declined and returning to stocks after the market earned at least 10% for a year. The second approach involved switching from stocks to T-bills following a combined two-year stock market rise of 40% or more and returning to stocks after the market declined for a year-or after two years, in any event.

Source: Compustat: Roger G. Ibboston and Rex A. Sinquefiled, "Stocks, Bonds Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Pres Journal of Business (January 1976); Lehman Brothers and Standard & Poor's

[1] Based on rolling, 15-year periods from December 31, 1925, through December 31, 2007, with dividends reinvested. Stocks measured by the S&P 500 Index, an unmanaged index that measures the performance of 500 large-capitalization domestic stocks representing major industries. It is not possible to invest in an index. Past performance is no guarantee of future results.

[2] Through the first 158 trading days of 2008, the S&P 500® Index rose or fell 1% or more on 65 days; it rose or fell 2% or more on 23 days. Source: SEI Commentary, September 2008.

Second, Understand The Risk Of 'Market Timing'

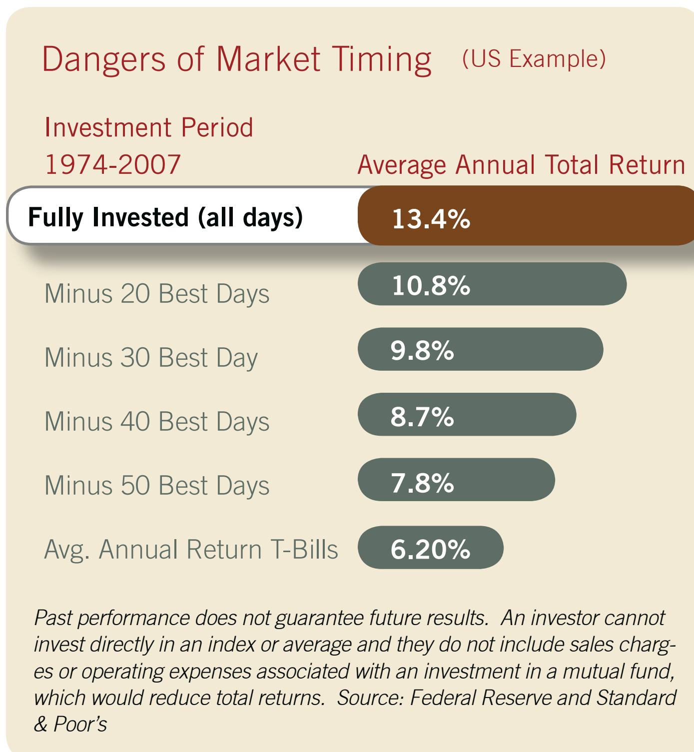
When it comes to investing, what's the biggest risk of all? Market risk? Company risk? Interest-rate risk? Credit risk? Inflation risk?

No, for many investors, the biggest risk is, quite fundamentally, the risk of losing money.

And because losing money can provoke a powerful, visceral reaction, some investors turn to market timing: buying or selling a security based on future price predictions.

But choosing when to invest, or "time" the market, is difficult. Investors who attempt to time the market may run the risk of missing periods of exceptional returns.

Clearly, market timing can seriously diminish long-term performance, if market volatility isn't managed properly. On the other hand, volatility provides investors with the opportunity to buy stocks and stock mutual funds at attractive prices.



Dangers of Market Timing (US Example)

Investment Period 1974-2007	Average Annual Total Return
Fully Invested (all days)	**13.4%**
Minus 20 Best Days	10.8%
Minus 30 Best Day	9.8%
Minus 40 Best Days	8.7%
Minus 50 Best Days	7.8%
Avg. Annual Return T-Bills	6.20%

Past performance does not guarantee future results. An investor cannot invest directly in an index or average and they do not include sales charges or operating expenses associated with an investment in a mutual fund, which would reduce total returns. Source: Federal Reserve and Standard & Poor's

Strategic Market Timing Is Harmful to Your Wealth (US Example)

S&P 500: 1970-2007	Average Monthly Return
Full 456 Months	1.0%
Best 48 Months (~10% of the time)	**8.2**
All other Months (~90% of the time)	0.1

Past performance does not guarantee future results. An investor cannot invest directly in an index or average and they do not include sales charges or operating expenses associated with an investment in a mutual fund, which would reduce total returns. Source: Federal Reserve and Standard & Poor's

Your investment advisor, should be committed to…

- Making a point of knowing you and knowing your individual investment needs
- Helping you avoid making emotion-driven mistakes in turbulent times
- Always being available to consult with you, in good markets and rough markets

Together you can create your personalized investment strategy —with an emphasis on managing risk, while producing relatively consistent and predictable results in all market environments.

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