The Danger of Trying to Time the Market

The concept of buying low and selling high is well known. Achieving this consistently will inevitably result in profit. The ‘secret’ is knowing when to buy and sell.

An investor may believe that a particular company is likely to do well following an event in the news. The consensus is that the share price will increase and that the investment will perform well if bought at the right time.

Similarly, an investor could be concerned about world events and choose to sell their investments rather than face future losses.

There are many reasons why the idea of timing the market can seem attractive. Investors often like to believe that their own knowledge or judgement will give them an edge over others. It can also give a perception of control over a volatile and unpredictable market.

In this sense, investing is similar to driving on a motorway. You can adjust your speed, weave in and out of traffic and try and take shortcuts. But you will spend a lot of effort (and petrol) for very little reward in terms of the end result.

Why Timing the Market Doesn’t Work

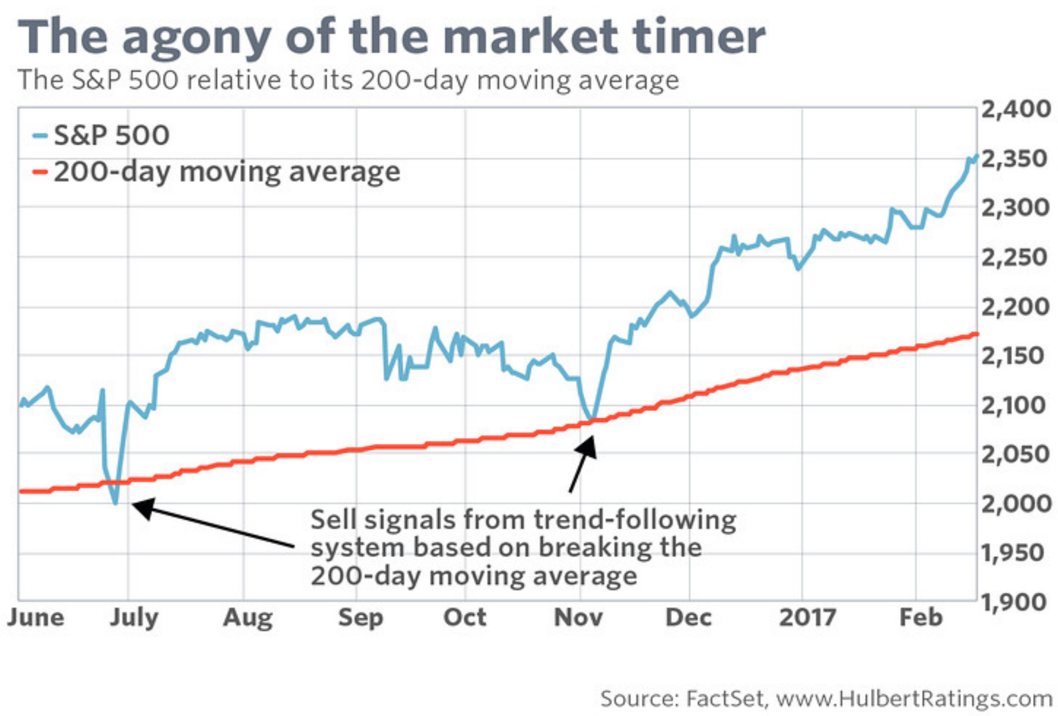
There are many reasons why timing the market is counter-productive:

- It’s impossible to know when the market highs and lows occur. Even after heavy losses, share prices could always fall further.
- The markets are efficient, which means that share prices usually already reflect all information available in the public domain. By the time an individual investor is able to act on the news, so have thousands of others. This eliminates any perceived ‘edge.’
- Financial markets swing on a daily basis. This means that heavy losses are usually followed by a recovery. By trying to reduce losses it is too easy to miss out on growth.
- Market fluctuations are usually influenced more by investor behaviour than tangible facts. This can be unpredictable and not always logical. Following the crowd can lead to ‘bubbles’ whereby shares are artificially overpriced due to increased investor demand.
- While any investor can make a few lucky calls, successfully basing your entire lifetime investment strategy on timing the market requires a level of luck similar to winning the National Lottery.
- Trading frequently is likely to increase costs that will cut into your returns.

- Constantly monitoring and tweaking your investment strategy takes a lot of work. This can lead to decision fatigue, second-guessing your decisions and frustration at missed opportunities.
- The belief that an individual can time the market is heavily linked to investor biases. We have a natural tendency to believe that our judgement is superior and that we have inside knowledge not available to others. But this means assuming that we can make better investment decisions than professional fund managers with cutting-edge research data and billions under management. Not just once or twice, but every time. Does this seem likely?

Over the longer term, the likelihood is that trying to time the market will leave you worse off than letting your investments run their course.

“We continue to make more money when snoring than when active.”
Warren Buffet



What Should You Do Instead?

If timing the market is not an option, what are the other options for achieving investment returns? The answers are well-established and backed by years of evidence and research:

1. Invest for the long-term. While the markets can be volatile at times, the likelihood is that prices will increase if held for a long enough period.
2. Hold a wide variety of different investments across different asset classes, geographical regions, and business sectors. Some will rise, some will fall, and there is a good chance they won't all be affected in the same way by world events. By holding a range of investments, you can capture some of the market growth while smoothing out some of the risk.
3. Don't invest at a higher level of risk than you can cope with. When you start investing, it's important to understand that the highs and the lows will eventually average out. This is a feature of investing, and a fall in the market does not mean that something has gone terribly wrong. A good investment strategy aims to ensure that any fluctuations are within your tolerance levels.
4. Rebalance your investments regularly to ensure that they don't drift outside your risk parameters or end up concentrated in one area.
5. Avoid being tempted to take money out of the market when volatility occurs. This risks turning a notional drop into an actual monetary loss. The market is cyclical, and providing you hold a wide spread of investments, the likelihood is that it will recover eventually.
6. If you are still in the accumulation phase of your investment journey, try and develop the discipline of investing every month. Not only does this build good habits, but it allows you to benefit from market growth as well as from lower prices in the event of a downturn.
7. Consider outsourcing your investment management to a professional. This allows you to benefit from a wide investment choice, risk management and research capabilities, as well as unburdening you from the daily decisions.

Aligning your investment strategy with your financial plan is the best way to filter out much of the 'noise' of the investment world. Rather than trying to maximise returns and beat benchmarks, you work to achieve your goals and build the life you desire.

Please do not hesitate to contact me to find out more about your investment options.

Thank you

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