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The Risks of Market Timing: 2020 Update

Stock market volatility may trigger a desire to try to "time" the market—to buy ahead of days when stock prices climb and sell before days when prices fall. But Brandes Institute Advisory Board member Wim Antoons[1] addressed the risks of market timing in a research report[2] he wrote in 2016. "It is often noted that a very small proportion of high-volatility days can account for the equivalent of substantially all of long-term returns," Antoons wrote. "But a strategy of trying to invest on the 'best days' and avoid the 'worst days' would be virtually impossible to execute."

Historically, days of stock market volatility have tended to cluster. On a number of occasions over the last several decades, the worst- and best-performing days have occurred in close proximity. Of course, if investors could avoid the worst-performing days, theoretically their long-term returns would be enhanced. But as the table below shows, simply staying invested during the short-term ups and downs would have delivered solid results over the long term.

Market Timing and the S&P 500 Index, Price Returns (1/1/1961 to 4/20/2020)
Annualized Returns and Ending Value of Hypothetical $100 Investment

	ANNUALIZED RETURN	ENDING VALUE OF $100 INVESTMENT
Missing 25 Best Days	5.82%	$1,011
Missing 25 Worst Days	15.47%	$35,839
Buy and Hold	10.02%	$4,963

Source: S&P 500 Index via Bloomberg, as of 4/20/20. Past performance is not a guarantee of future results. One cannot invest directly in an index. This hypothetical example is for illustrative purposes only and does not represent any specific investment. Actual results will vary. Length of period shown is not realistic for a typical investor. Returns do not include dividends and do not reflect effects of taxes or fees, which would reduce the performance shown if they were included.

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[1] Wim Antoons is Head of Portfolio Desk at Portolani, an independent Family office for entrepreneurial families in Belgium. In this role, he is responsible for the selection of third-party funds for clients. Previously, Mr. Antoons was Head of Asset Management at Bank Nagelmackers. In this role, he oversaw the investment process for the private banking and fund of funds businesses. He earned a Master of Commercial and Financial Sciences at the Hogeschool-Universiteit Brussel and has 25 years of investment experience.

[2] Market Timing: Opportunities and Risks, Wim Antoons, November 2016.

The S&P 500 Index measures equity performance of 500 of the top companies in leading industries of the U.S. economy.

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