GRAYSWAN

‘Time in the Market’ vs. ‘Timing the Market’

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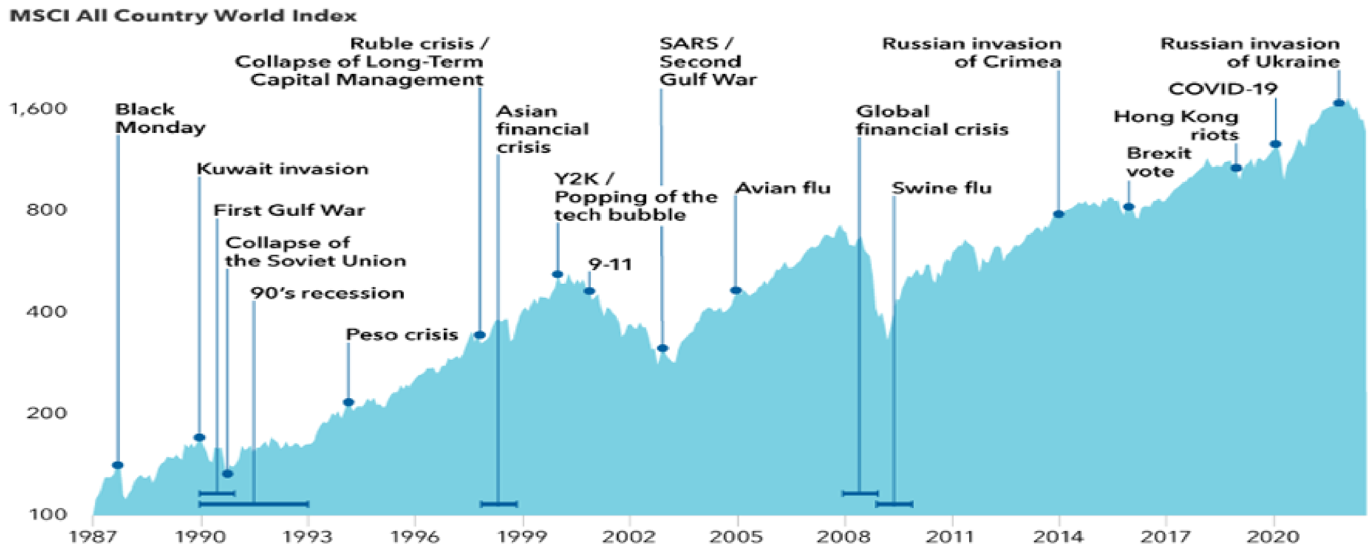
We have just experienced the toughest period in the markets for over 40 years. Investors may, in hindsight, argue that they should have changed their allocation to lower risk assets or reduced their exposure significantly to avoid a draw-down. On the other side of the coin, investors with excess cash may be wondering when the best time is to buy stocks at cheaper entry levels. It’s during times such as these that we have to remind investors and clients (and even ourselves) that time in the market is more important than market timing.

Time in the market (often referred to as a long term investment strategy) involves buying securities or investments and staying the path for a long term period. Time in the market from an individual financial and wealth planning perspective means identifying, with your investment consultant or wealth manager, what your specific long term investment goals are, and how best to achieve these within the constraints of how much investment risk you are willing to take (“risk appetite”). Individuals with a higher risk appetite have higher tolerance for volatility (risk) and are able to allocate a greater portion of their portfolio to equities, which over the long term provide a higher investment return.

From a retirement member’s perspective, time in the market means being defaulted into the appropriate Risk Profiled Solution to suit your time to retirement and risk appetite and then trusting in the Life Stage mechanism and the process. This means not to change course or strategy in the short term.

Time in the market has consistently proven to be the superior investment strategy when it comes to long term investment and retirement planning. Time in the market has additional benefits, beyond the scope of this snippet, but which include lower transaction costs, tax efficiency and can be significantly less stressful for the investor.

Market disturbances are a fact of life for investors



Sources: MSCI, RIMES. As of 6/30/22. Data is indexed to 100 on 1/1/87, based on the MSCI World Index from 1/1/87–12/31/87, the MSCI ACWI with gross returns from 1/1/88–12/31/00, and the MSCI ACWI with net returns thereafter. Shown on a logarithmic scale.

Timing the market, on the other hand, involves actively buying and selling (or investing and redeeming, or switching out of investments) to try and 'time' the correct entry and exit point for your investment. With the clarity of perfect hindsight, it is tempting to look at historic stock market cycles and believe that the peaks and troughs are easily identified. It may be tempting to think that with some knowledge and a little luck a savvy investor could time the market and avoid material drawdowns.

> **"You never really know what's coming. A small wave, or maybe a big one. All you can really do is hope that when it comes, you can surf over it, instead of drown in its monstrosity."**
> **- Alysha Speer**

It can be painful to watch your hard-earned money evaporate during a particularly rocky period in the stock market; this makes it tempting to sell when values start dropping, then buy back in once they're on the rebound.

Unfortunately, making the correct timing calls has proven time and again to be exceptionally difficult to do well. Successful market timing requires investors to be right not once, but twice- selling near the top and buying back at the bottom. If there is a 50% chance of being right once, then the odds of being right twice fall to 25%. And the odds of being right even once fall when the decision is made emotionally. Emotional decisions lead investors to enter the market near the top of the cycle and leave near the bottom. By staying invested through the cycle you will be significantly better off.

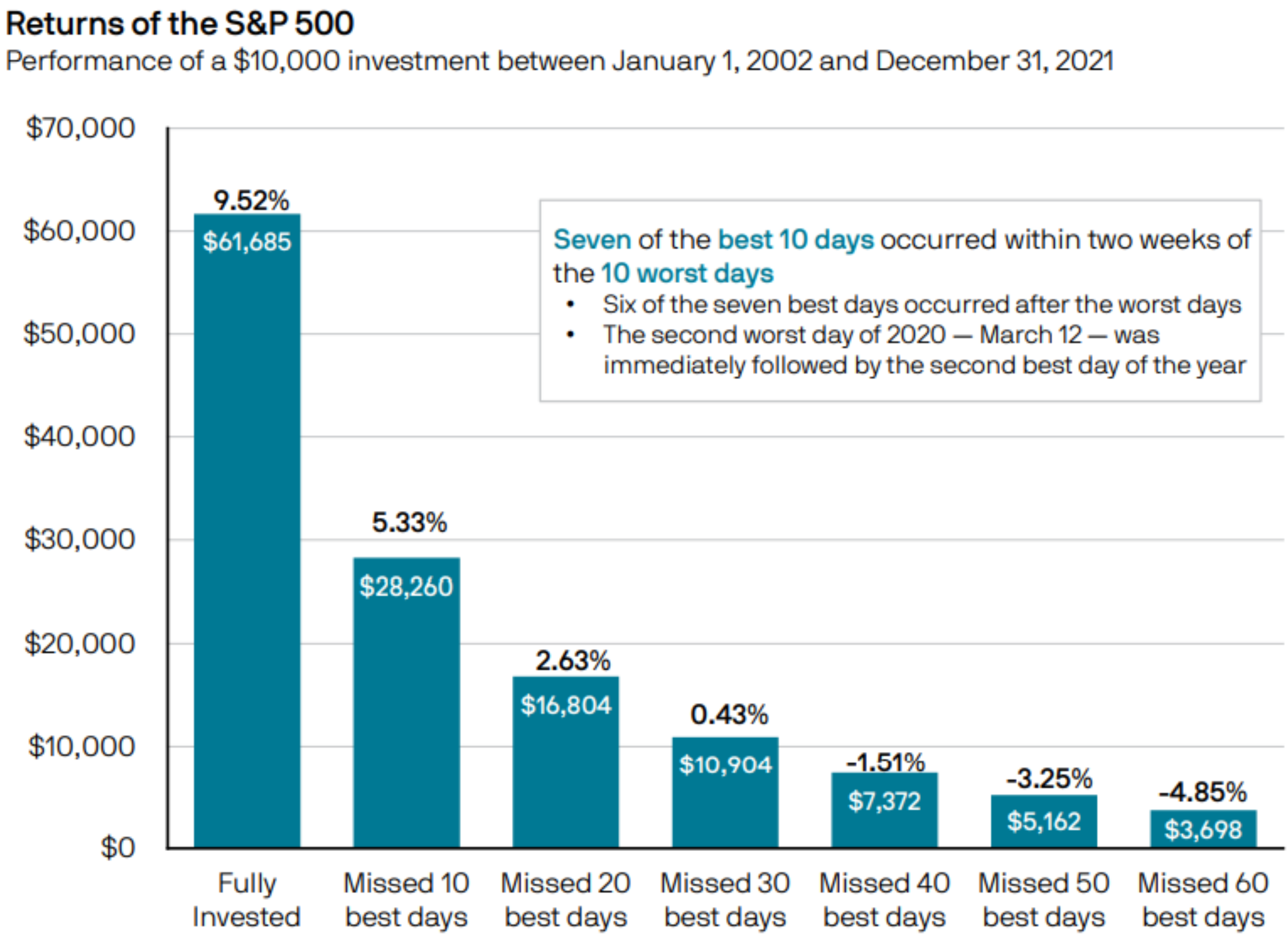
To quote some research, Nobel Laureate and famed economist William Sharpe, inventor of the Sharpe Ratio (which is a measure of return per unit of risk), originator of the Capital Asset Pricing Model (CAPM) and expert in optimal portfolio theory and diversification agreed: he found that a market timer would need to be correct 74% of the time to beat a passive (buy-and-hold) portfolio. Even a slight outperformance most likely wouldn't justify the effort.

Research consistently shows that a long term buy-and-hold strategy tends to outperform, where market timing remains very challenging. Even the most experienced active investors find it difficult to correctly identify the peaks and troughs in equity markets: bear rallies, dead cat bounces, head and shoulders configurations, false breakouts (or breakdowns) are all technical terms for situations where market price movements have suggested a change in trend.

Being 'sucked in' to these indicators can result in a double 'whammy' (buy high sell low) of negative performance. Market jargon is littered with negative market timing phrases such as whipsawing, doubling down, capitulation etc. and history and behavioural finance has shown that investors who have made one bad timing decision will be less likely to re-invest (loss aversion) and will most likely miss the recovery. These types of poor investment decisions could be significantly detrimental to the value of your investments and your retirement nest-egg.

What is perhaps less understood than time in the markets versus timing the markets is the risk of not being invested, even for a short period of time. Investors who are looking to make market timing decisions will undoubtedly 'sit on the side-lines' for a period in an attempt to choose a more attractive entry point. This opportunity cost (or the cost of being out of the equity market) may in fact be the biggest risk of all: of paramount importance is understanding that much of the equity market's greatest returns or declines are concentrated in a short time frame.

If you aren't invested in the equity market during its best performing days, you may well miss out on much of the gains for the year. In fact, someone who found themselves sitting on the side-lines during the best 10 equity market days between 2002 and 2021 had their total long term investment return cut in half.



[i] JP Morgan Study

Missing ten days over two decades may seem insignificant in the grand scheme of things, but this study shows that even a short stint of poor market timing can have lifelong adverse consequences .

Coronation, in their Talking Investments August 2022 conference which GraySwan attended, used two specific case studies, the Global Financial Crisis (GSC) in 2009 and COVID in 2020, to illustrate the risk of trying to time the market. In both case studies markets had suffered a brutal collapse, didn't stabilise at the bottom for even one trading day, and for no good reason suddenly recovered.

GFC CASE STUDY

- Brutal collapse for 9 months
- Markets didn't stabilise at lows for even one trading day
- For no good reason market recovered

9 March 2009 (the bottom):	*-1%*
10 March 2009:	*+6%*
11 March 2009:	*+1%*
12 March 2009:	*+4%*
1 month later:	*+27%*
3 months later:	*+39%*

COVID S&P CASE STUDY

- Brutal collapse for 5 weeks
- Markets didn't stabilise at lows for even one trading day
- For no good reason market recovered

23 March 2020 (the bottom):	*-3%*
24 March 2020:	*+9%*
25 March 2020:	*+1%*
26 March 2020:	*+6%*
14 trading days later:	*+25%*
4 months later:	*+46%*

Markets tend to "look ahead and rally when least expected". In each case, after a short period the recovery was significant. [ii]By the time you realise that the market has moved up it is often too late, the opportunity is missed and, with the benefit of compounding, the divergence in performance between those who participated, and those who didn't may make the difference between retiring comfortably, or not, and reaching your investment goals, or not.

Timing the market, for retirement investments particularly, is a mug's game. Instead, it's important to determine an appropriate investment strategy and asset allocation you're comfortable with, and then stick with it through times of turbulence and prosperity. This strategy is a winner's game.

CONCLUSION

Investors are reminded that portfolios will experience periods of negative performance over shorter time frames, but these are mitigated tactically where possible, with a long term view to meet the predefined performance target of individual investment goals.

Further, market sell offs such which we have just experienced typically prove to be attractive investment opportunities, and experienced investment consultants and wealth managers are well placed to exploit these, positioning for a recovery, and investing cheaply in the investments of the future.

PERIOD REVIEWED FOR BULL / BEAR MARKETS: JANUARY 1990 TO JULY 2022					
TOP	BOTTOM	LOSS	TIME FROM TOP TO BOTTOM (MONTHS)	TIME TO RECOVER (MONTHS)	WHAT HAPPENED THEREAFTER?
Dec-89	Sep-90	-24,34%	9	31	Markets jumped by 20.2% over next 10 months
Mar-00	Sep-02	-46,80%	30	39	Markets jumped by 32.4% over next 22 months
Oct-07	Feb-09	-54,03%	16	52	Markets jumped by 22.4% over next 23 months
Dec-19	Mar-20	-21,05%	3	8	Markets jumped by 27.0% over next 14 months
Dec-21	Jun-22	-20,51%	6	Ongoing	

*MSCI World USD

The table above shows the most recent bull and bear markets since 1990. The data shows that once the markets have recovered, they tend to continue to reach new highs in the months that follow. It is also clear that the speed of both the bear market sell-off and the recovery can vary widely. Choosing the right time to buy or sell is never easy. Staying the course, being committed to your investment strategy, and leaving the timing decisions to the experts is the best path to long term wealth creation.

Time in the market is what counts. At times like these we remind ourselves of this: you will definitely not catch the big wave if you are sitting on the beach – you need to be in the water and paddling in the right direction.

[i] https://am.jpmorgan.com/us/en/asset-management/adv/insights/retirement-insights/guide-to-retirement/
[ii] Coronation Asset Management www.coronation.co.za

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