

# Making Sense

## Market Timing, Anyone?

In [this month's market update](#), we discussed equity and fixed income markets, the real estate landscape, and government finances. In today's note, we want to focus on the importance of *time* in the markets rather than *timing* markets.

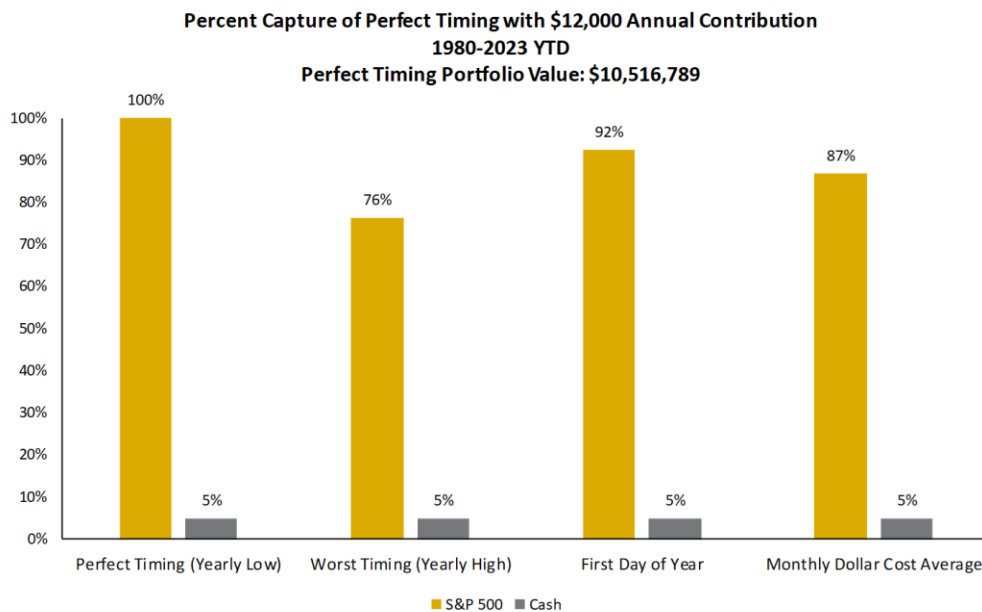
Investors are often hesitant to enter the market during times of volatility when the potential for loss is perceived to be higher. With that concern in mind, we looked at a few different scenarios around market timing. In each of these scenarios, we assume an individual invests \$12,000 into the S&P 500 annually from 1980 to 2023.

When the contribution enters the market is where each scenario differs. Consider the following scenarios and outcomes:

1. **Perfect Timing:** Contribution invested at the market bottom each year, resulting in a portfolio value of \$10,516,789.
2. **Worst Timing:** Contribution invested at the market's peak each year, resulting in a portfolio value of \$8,030,593 (76% capture of "Perfect Timing").
3. **First Day of Each Year:** Contribution invested on the first day of each year regardless of market condition, resulting in a portfolio of \$9,717,271 (92% of "Perfect Timing").
4. **Monthly Dollar Cost Averaging:** \$1,000 invested on the same day of each month regardless of market conditions, resulting in a portfolio of \$9,125,007 (87% of "Perfect Timing").

As you can see in Figure 1 below, the cost of keeping cash on the sidelines is severe. Even if investors enter the market at its peak every year, the portfolio does far better in the long-term than holding cash, waiting for a perceived better opportunity.

Figure 1: Percent Capture of Perfect Timing with \$12,000 Annual Contribution Since 1980



Source: Bloomberg

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