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.

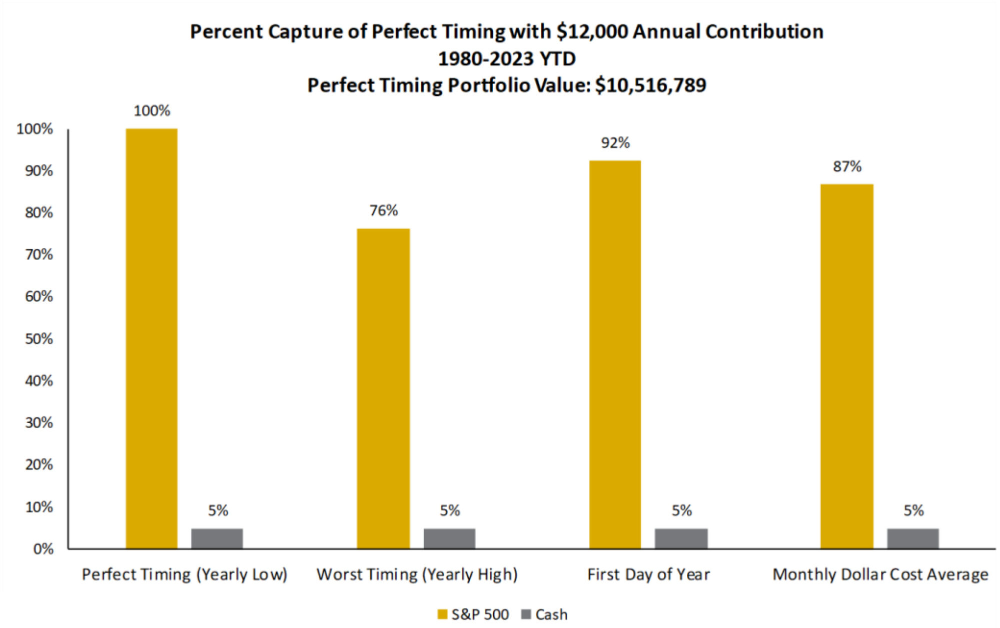
Investors are often hesitant to enter the market during times of volatility when the potential for loss is perceived to be higher. With that concern in mind, we looked at a few different scenarios around market timing. In each of these scenarios, we assume an individual invests $12,000 into the S&P 500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