Dangers of Market Timing

▸ As clients know, COMPASS has always been an opponent of market timing due to the reasons outlined here.

Two of the most dangerous words in the investing world are "market timing." Market timing occurs when investors try to predict which direction the stock market will head. While some investors have been known to make money timing the market, it is highly inadvisable for long-term investors to try this extremely risky strategy.   Opponents of Market Timing: Most investors and academics believe it is impossible to forecast market movements. Such a technique amounts to gambling when compared with a sound investment approach. It fails far more than it works, and market timers often end up buying high and selling low. Furthermore, you run the risk of missing periods of exceptional returns. For example, over the past 20 years, a $1 investment in stocks, as represented by the Standard & Poor's 500®, would have grown to $5.75. If that same $1 investment happened to miss the best 13 months of stock returns over the past 20 years, the ending value would have equaled only $1.96. This would have been less than the value for an investor in a 30-day Treasury bill, a.k.a. cash, $1.97. Only those who remained invested in stocks throughout the entire period were sure to get market exposure during the crucial hot months.

Advocates of Market Timing: On the contrary, a number of websites, newsletters, and other trading services boast they can time the market. While their returns may have in fact beaten the market by a considerable margin, it's safe to assume that these systems can't consistently hold up over the long term. On some occasions and during some stretches of time, market timing can help generate impressive profits. However, you must be familiar with the dangers behind such an approach.

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