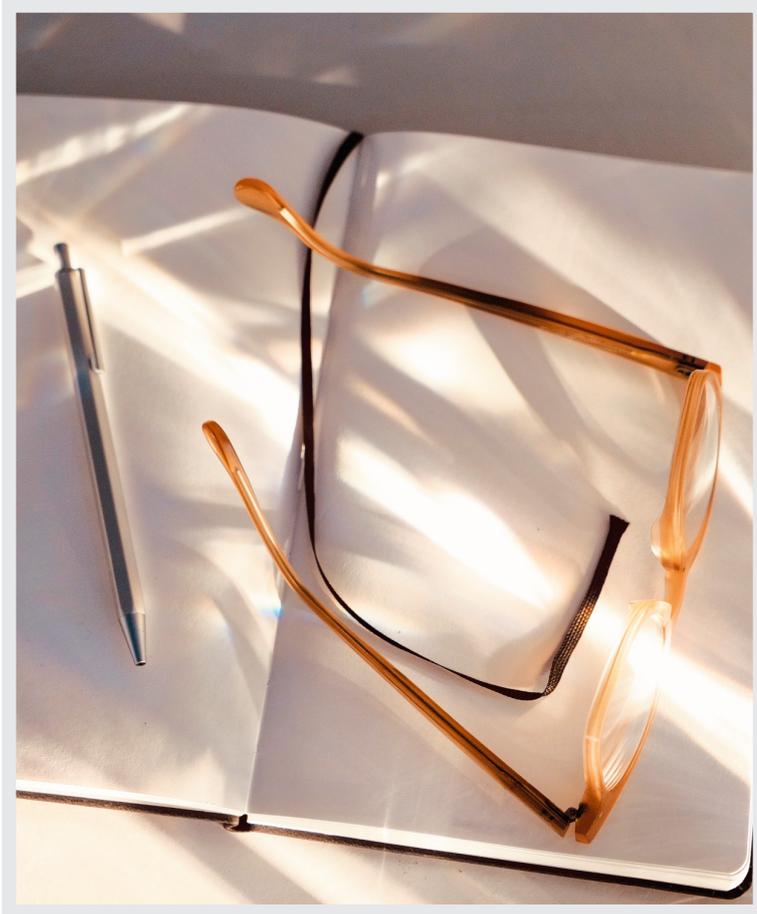


The market timing myth



A persistent, but inaccurate, piece of investment mythology is that it is possible to time the markets. However, in reality, attempting to 'buy low, sell high' simply doesn't work. A far more robust strategy is to take the long view, by simply investing and staying invested.

Possible client questions



"Surely if I can avoid the largest down days in the market, my overall returns will be better?"



"Could I time my market entries/exits to buy low and sell high and achieve better portfolio performance?"



"If everyone else is buying/selling, then presumably it's a good time for me to buy/sell too?"



"What if I make a lump sum commitment at a time that turns out to be a market peak?"

Facts / Key learnings



Cherry picking history

It's tempting to look at a chart with the benefit of hindsight and imagine being out of the market whenever it fell sharply, but in attempting to do this, one is just likely to miss major rises. As the chart below shows, missing just a few up days can severely degrade overall performance. Factor in the frictional costs of selling and reinvesting, and the returns are even worse. A long-term investment strategy avoids these issues.



Following the herd

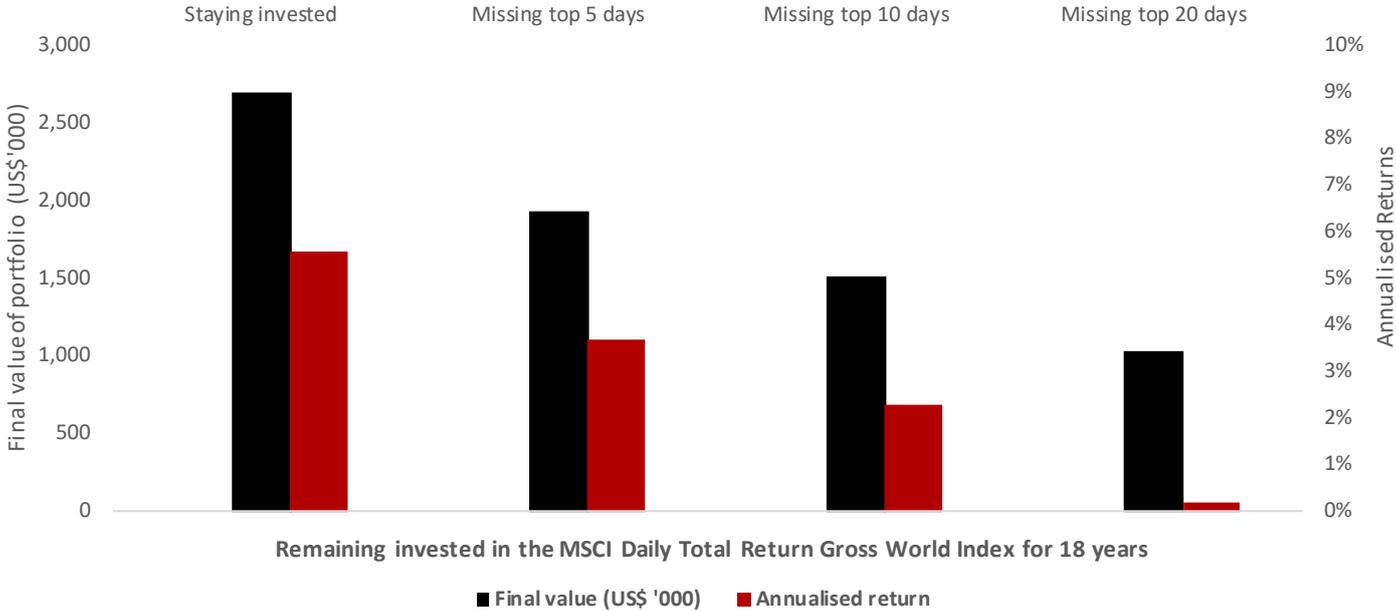
A similar trap is to try to time the market by following the herd. When all the pundits are talking the market up and everyone seems to be investing, you buy – and vice versa. In practice, you often find that the reverse applies and that by following the herd you actually “ buy high, sell low”. Again, taking a long-term view avoids this risk.



Spread the risk, forget the noise

Even if you aren't trying to time the market, it's still possible that you may make a lump sum investment at the wrong moment. If this is a concern, then one solution is to dollar-cost average, by making regular, smaller investments, thereby diversifying any timing risk and reducing your exposure to short term noise.

Returns from US \$1,000,000 invested from January 2001 to March 2019



Source: HSBC Private Bank (UK), Bloomberg
 Any investment may go down as well as up and you may not get back the full amount invested. Past performance is not a reliable indicator of future performance.

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