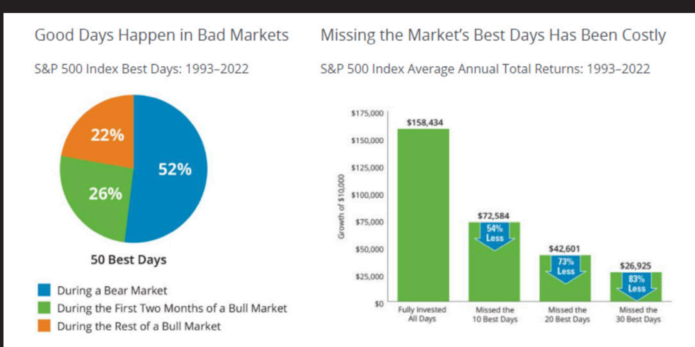
WHY YOU *CAN'T* TIME THE MARKET

JUSTABOUT WEALTH MANAGEMENT

"Everyone has a game plan until they get punched in the face." – Mike Tyson

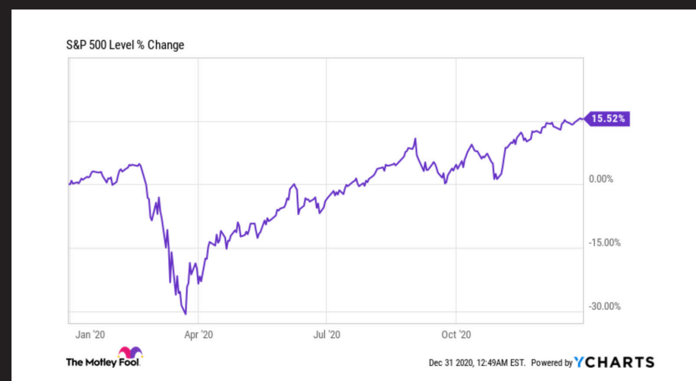
I love this quote by Mike Tyson and how it applies to investing in the stock market. Often when the market becomes volatile, the first reaction of many investors is to consider selling out of their investments. They ignore their financial game plan when this occurs. Fear leads them to make decisions that could significantly impact their long-term strategies. The decision to sell investments in volatile times leads to an even more difficult decision in the future: when to get back into the investments. The most challenging part of figuring out when to get back in is that the markets often recover well in advance of economic recoveries. The chart below shows that many of the best days of market performance occur during bear markets (52% of the time) and during the early phases of bull markets (26% of the time)! So, if you are out of your investments during these times, you may miss out on significant upside that may not be able to be made up in the future.



Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Data Sources: Ned Davis Research, Morningstar, and Hartford Funds, 2/23.

When I am speaking of market timing, I cannot help but go back to a couple of quotes from some very famous people. Back in October of 2008, during the height of the Great Recession, Warren Buffett made the following statement in an Op-Ed piece in the New York Times: "A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful." Investing is counterintuitive—investors should buy when they think they should sell and vice versa. It is very difficult for the average investor to ignore the messages of the media, which are not intended to tell the truth but rather to generate followers and subscribers. That is where a major benefit of a financial advisor is realized: helping clients to avoid decisions about their money that are driven by emotion. Buffett also quoted famous hockey player Wayne Gretzky in the piece, "I skate to where the puck is going to be, not to where it has been." Yesterday's winners are many times not tomorrow's winners.

If nothing else has proven that market timing is nearly impossible over the long term, it is the COVID-19 pandemic. Take a look at the chart of the S&P 500 performance during 2020. The S&P 500 dropped more than 34% from February to March of 2020, but it fully recovered before the fourth quarter of that year. Where were we at that point? We had just gotten out of quarantine and still would not have a vaccine until late in 2020. Gross Domestic Product was rapidly recovering, but it had fallen to an all-time low of -29.9% in the second quarter. The headlines were still very negative, and cases were still rising at that point, but the stock market fully recovered.



Currently, we are in a downturn that has lasted almost 17 months. Investors are becoming tired of not seeing much upside. Many are looking far more at fixed instruments these days, such as CDs and zero-coupon bonds. The hope is to produce some very nice guaranteed positive returns that are not being generated by stocks currently. We have been telling people that these instruments are fine, as long as they fit into the long-term financial plan of the client. They should not be purchased as a knee-jerk reaction to being punched in the face by a volatile stock market.

Even though we cannot control the stock market, we do have one area we can control during volatile periods for the market… that is, how much we are withdrawing from our portfolios. People who reduce or stop withdrawing from their investments during downturns are likely to recover more quickly when the markets recover. People who are adding to their portfolios in these times will likely benefit even more by buying at lower prices. So take control of what you can during these times and stick with your long-term plan!

David Hoffmann has 25+ years of experience as a Financial Advisor and is the CEO of Justabout Wealth Management. As a CFP® designee, he counsels clients on financial planning and investments. He also serves companies by providing retirement plans.

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