

CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

Market timing and missing the worst performance months



In my last article, I wrote about the benefits of a buy and hold strategy where an investor stayed in the market through the ups and downs of a particular investment.

Let's consider the same four friends, James, Stacey, Jasmine and Vini and their investment behaviour under a different scenario. Each person invests \$10,000 in the same investment, the S&P/TSX Total Return Index. This time, everyone except James, enters and leaves the market over the same 10 year period, missing some of the worst performing months of that investment.

James experiences the same result as under scenario 1. His "buy and hold" strategy resulted in a gain of \$5,860. Let's look at what happened to his three friends. Please refer to the chart on page 2.

This scenario shows the merits of timing the market so as to avoid the worst months of performance of a particular investment.¹ Here's the problem. The math works but putting the strategy into practice so that the results match this scenario is virtually impossible. You only know what the worst months have been after the fact. The same holds true for knowing when the best performing months are going to be. Again, seasoned professionals are unable to boast this kind of performance despite being focused on doing this for a living. They hold professional accreditation, have years of education, training and experience and have resources most investors do not.

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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As a Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

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Timing the Market

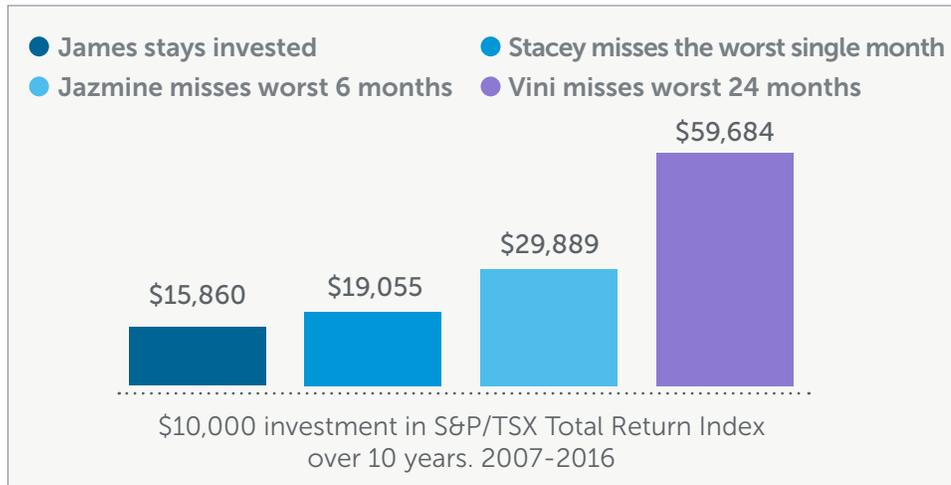


Illustration only, not intended to project future performance of any particular investment.

Investors who do not adopt a long term discipline of a buy and hold strategy tend not to outperform the markets let alone professional fund managers. That said, the two scenarios I have described may be optimized when investors adopt a dollar cost averaging approach. This strategy does not rely on timing the market. Investors buy in at regular intervals during the accumulation phase of their lives and sell off at regular intervals during the decumulation phases of their lives. They view the worst performance months of the market as times to buy, because investments are on sale. They hold on to those investments during times when those investments experience exceptional growth. The average cost of buying the investment over time may be lower. What's more, the downside risk may be offset by working with value oriented fund managers that offer downside protection in addition to upside potential when setting up investment portfolios.

Many investors do well and feel less stressed when they rely on professionals to manage the timing of purchases and sales of investments forming a portfolio.² A key consideration is selecting the right combination of investments that will help investors meet their goals. Another one is the cost associated with having investments managed actively and the value received for the advice and planning investors get from accredited financial advisors in exchange for those investment expenses. This is another example of doing this for yourselves, not by yourselves. Seek out a professional accredited advisor to help you out.

¹Source: S&P/TSX Composite Total Return Historical Data; Investing.com

²Source: Ivey Business School report, "The costs and benefits of financial advice," 2013. CIRANO, The Value of Advice Report 2012

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