On The Mark

ASSETMARK

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Time in the Market, NOT Timing the Market

Key Takeaways

- Seeking to achieve the long-term equity return of 10% means sitting through all market cycles.
- Market downturns lead to emotional decision making which can have a significant negative impact on portfolio returns.
- It's time in the market, not timing the market, that allows portfolio goals to be achieved.

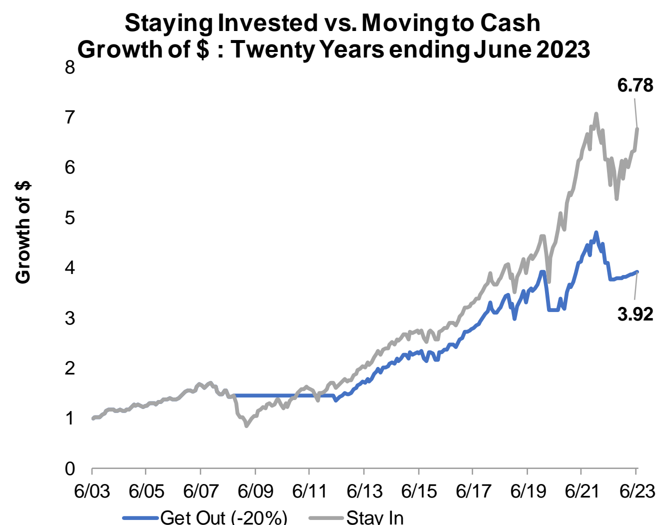
When people hear that the average annual return of the S&P 500 since inception is around 10%, the response is probably "sign me up," especially if the market is trending up. But how often does the S&P 500 provide that average return in a calendar year?

Looking back over the last 20 years, there was not one calendar year that the return was 10%. It was either higher or lower. That 10% long-term return is not a smooth, even ride; the returns range quite widely around that average.

Market Falls & Emotions

When the market experiences those large falls, we feel sick to our stomach as we see our portfolio values shrink. It's like being on a rollercoaster, and you've gone over the peak. You're riding that first dip and your stomach churns. The larger the fall, the more the stomach churns, and the emotions take over, screaming, "Get me out." But, those decisions can have a significant impact on the value of a portfolio.

Getting out is only half the decision – knowing when to get back in is the harder part of the decision, and most investors wait too long.



Source: AssetMark, Zepyhy Style Advisor. Investment in the S&P 500.

In the example, we show the impact of getting out once the market passes the bear market definition of -20% and then staying out until the market recovers to its prior high. There have been three bear markets in the past 20 years, and stepping out of the market and moving into cash costs the portfolio. In the past 20 years, it cost a portfolio almost half of its potential value.

Market Cycles

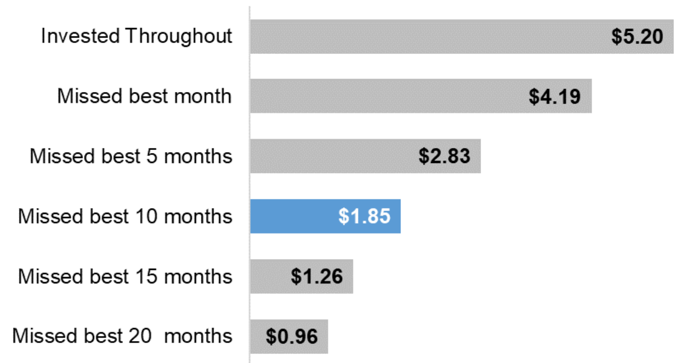
There's a reason it's called a market cycle – it goes up, it goes down, it goes up, and it goes down. The only way to get that long-term average return is to invest throughout the market cycle.

It's at the turning points when the market changes from falling to rising that some of the largest returns are seen. The chart below shows the growth of the S&P 500 since 2000 and the 10 best months highlighted in blue.

Looking at the chart below, you can see some blue breaks in the grey line. Those blue breaks are the 10 best monthly returns since 2000. What do you notice about those blue breaks? They all happened after large market drops.

Missing the Best Months

If an investor stepped out after each of those market drops and missed those 10 months, it was a costly mistake on the portfolio. The bar chart shows the portfolio's value if the investor stayed invested throughout the full period. The initial investment went up fivefold.



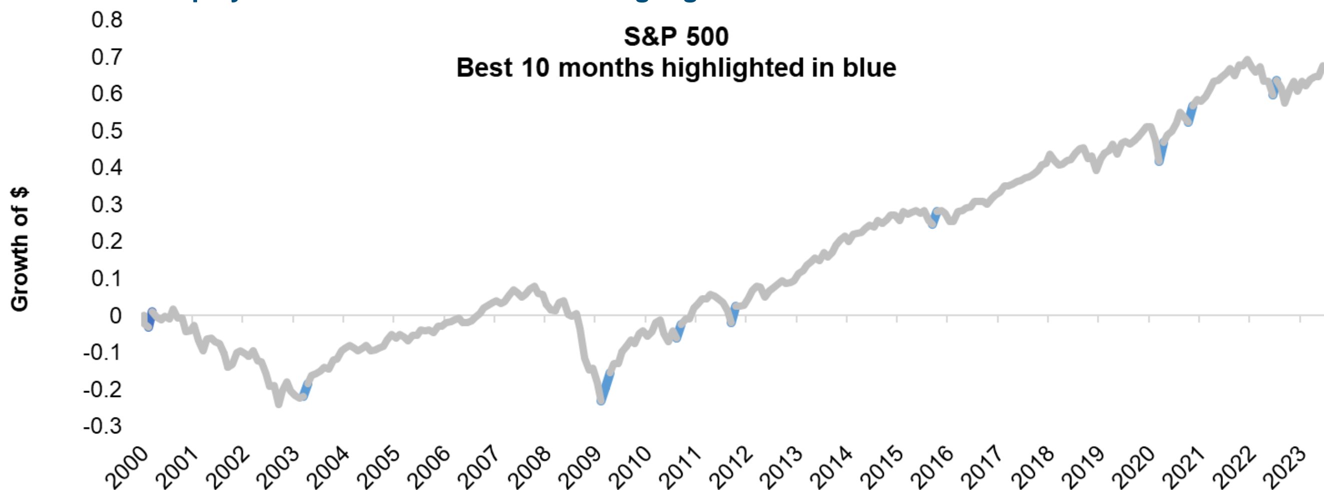
Source: AssetMark, Zephyr Style Advisor.

However, had they missed the 10 best months, the portfolio didn't even double. The investor missed out on 65% of the potential return by being out of the market and not benefiting from the compounding of those strong returns over time.

Time in the Market Is Key

Long-term returns are only achieved by staying disciplined and doing what's right for your long-term goals. And that's spending time in the market rather than trying to time the markets.

Growth of US Equity Market with 10 best months highlighted



Source: Zephyr Style Advisor.

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