THOMPSON WEALTH MANAGEMENT, LTD.

“Can investors successfully market time?

By Bruce Thompson

We believe market timing is far riskier than a buy-and-hold strategy, regardless of the time period. The first chart to the right illustrates the impact of missing just a few of the best days over the course of the past decade. For example, missing only the ten best days in the past ten years turned a positive annualized return of 5.3 percent to a negative 1.7 percent.
One might argue the opposite: If you are out of the market just a few of the worst days, your return will be much higher than if you had stayed fully invested. Yes, but as the second chart illustrates, that is true only if you are invested for the best days.

Therein lies market timing’s problem: You have to be right twice. Consider that few investors withdrew completely from the stock market ahead of the 2008—2009 bear market. But many abandoned their equities at other points, realizing losses to protect themselves from further market decline. Did they rush back in to buy in at the market low? Did advisors urge them to take advantage of the decline in stock prices?

Historically, the majority of returns have occurred early in new bull markets, when many investors are still sitting on the sidelines. Consider the 119 percent total return from March 9, 2009, through July 31, 2012. Those missing the first two months of the recovery and reinvesting on May 9, 2009, earned only a 59 percent return, through July 2012.

Few investors, professional or otherwise, can consistently time the market. Attempting that increases not only risk, but also the probability of underperforming a buy-and-hold strategy. **To mitigate the risk of owning stocks during a downturn, we recommend that investors focus on the income provided by dividend-paying companies that demonstrate above-average yields and a history of annual dividend increases.**

Fortunately, those opportunities abound today, with many high-quality companies paying dividend yields in excess of their own bond yield.

THE RISK OF MARKET TIMING	
June 2002 through June 2012	
10 Years Ended June 28, 2012 S&P 500 Total Return (Annualized)	
All 2,521 Trading Days	5.3%
Minus 10 Best Days	-1.7%
Minus 20 Best Days	-6.0%
Minus 30 Best Days	-9.7%
Minus 40 Best Days	-12.8%

THE BENEFITS OF SUCCESSFUL MARKET TIMING	
June 2002 through June 2012	
10 Years Ended June 28, 2012 S&P 500 Total Return (Annualized)	
All 2,521 Trading Days	5.3%
Minus 10 Worst Days	13.4%
Minus 20 Worst Days	19.1%
Minus 30 Worst Days	24.1%
Minus 40 Worst Days	28.6%