# TIME IN THE MARKET: MORE IMPORTANT THAN TIMING THE MARKET

A look at the benefits of a long-term plan.

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Most US stock indices have experienced all-time highs in recent months, but what does that mean for your investments and your wealth? Market highs and lows tend to make investors antsy because the media starts paying more attention—meaning there's more noise. Noise about market highs drives greed; and noise about market lows drives fear. Greed and fear are strong emotions that can make investors believe they need to act.

Should you liquidate your portfolios to avoid a potential imminent economic collapse? Do markets always fall after reaching all-time highs? If you pay attention to the financial media or even the mainstream media—you may start to think you must do something.

Regrettably, we do not have a crystal ball that tells us when the markets will shift. Nobody else does either. Unless someone is intimately familiar with your portfolio and your investments—you should not listen to their advice about when to jump out of (or back in) the market. Your time in the market is far more important than timing the market highs and lows.

## ASSESSING MR. MARKET

We believe markets are usually, but not always, efficient. The Oracle of Omaha, Warren Buffett, puts it well when he refers to the manic-depressive nature of Mr. Market—despite all the information that investors have at their fingertips, irrational greed and fear occasionally drive the market for financial assets.

Should you cash out now while you're ahead? Stock markets may continue to move higher and extend gains. If investors decide to move their portfolios to cash, they must be prepared to sit and watch on the sidelines if the market continues to reach potential new highs.

Even if you are okay watching the market rise, the bigger issue with transitioning your portfolio to cash is that, when trying to time the markets, you must be right twice. When will you make the call to reenter the market? You must accurately predict the market high (when you jump out) AND predict the market low (when you jump back in). Nobody has been able to do this with any consistency in the history of the financial markets.

Also, take into consideration that money sitting idly in bank accounts is currently earning minimal interest. You can argue that you would actually lose money in the current environment because of inflation. The real rate of return for an investor earning only 0.5 percent in interest while inflation sits near 2 percent is negative.

"Forgoing returns in the interest of safety simply won't deliver the returns you need to achieve your long-term goals," says Rob Kapito, President and Director of Blackrock. "In fact, it would take a US investor 35 years to double his or her money in cash, assuming a long-term expected return of 2 percent."

Cash also presents a psychological challenge: once you've exited the stock market and stocks begin to fall, there will always be reasons to talk yourself into staying out. In

## BOTTOM LINE

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hindsight, there was no white flag being waived in March of 2009 when the markets reached the low point of the financial crisis. There was no sign telling everyone it was safe to get back in the water.

### STICK WITH AN INVESTMENT PROCESS

No one can consistently call tops and bottoms, so you should have an investment process in place that provides some level of comfort across many market scenarios to fight the urge to do something. The something you do is simply stick with your process and stay your course.

Ben Carlson recently explained: "It's about having the ability to get over the fear of allowing market forces to stop you from implementing an investment plan. Whatever you choose to do—dollar cost average over time, wait for a market correction, put it all back in at once, hire a professional—try to have a plan of attack that you can follow. It's no good to create a plan that you have no chance of actually seeing through because you become paralyzed by fear or greed."

Generally, investors should deviate from strategic investment planning and baseline allocations only if there is a compelling opportunity or reason to increase return and/or reduce risk.

Stock prices have historically risen on average over time. All-time highs are challenged decade after decade. "That is as true today as it was on September 3, 1929, January 11, 1973, January 14, 2000, and October 9, 2007," Charlie Bilello explains. "Unfortunately, no one rang a bell at these all-time high tops, alerting you that there would be no new highs for years to come. Unless this bull market goes on forever, the same will be true today. There will be another large correction. And it will start with an all-time high that looks and feels innocuous. No bell will be rung."

We are not confident in our ability (or anyone's) to consistently assess short-term psychological influences. We cannot time the markets—so we don't try. But we are confident that over longer periods, valuations and fundamentals converge. Stay your course and stick to your plan. The authors welcome your questions. ■

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