
Timing the Market



LIFETIME PLANNING, INC.

One of the big questions in investment theory is, can we effectively avoid losses and increase gains in the stock market by “timing the market?” Although there are complex models using stock market data to determine entry and exit points for those who time the market, most investors go by their gut feelings. That is, they buy stocks when they feel good about the market’s future and sell them when they are pessimistic. How well has this worked for investors recently?

According to an article in the July 16, 2003 issue of the *Wall Street Journal*, “timing the market” is a bust. Dalbar, Inc. of Boston used mutual fund flows to estimate how long the typical investor holds their funds and then matched the returns investors would have received during that period with appropriate market indexes. According to this research, stock fund holders held their funds approximately 30 months and earned an average annualized gain of 2.6%, while the Standard & Poors 500 Index gained 12.2% during the period of 1984 to 2002. Bond fund investors did a little better, holding their funds an average of 34 months. Their average yearly gains were 4.2% vs. 5.5% for Treasury Bills during that period.

According to the Journal report, this information shows the ...“futility in trying to time the market.” This suggests another question. If we are unlikely to be able to limit our risk in the stock market by entering and exiting, how can we mitigate our risk and stay invested for the long-term? Here are two tools that can help do this. The first is “effective diversification.” Diversification can be within an asset class such as large cap domestic stocks, or among asset classes such as large cap domestic stocks, large cap foreign stocks, small cap domestic stocks, etc. The second risk management tool is the decision about what percentage of stocks to use for the portfolio as related to the total. For example, a portfolio that has 80% stocks or stock funds and 20% in bonds or bond funds has strikingly different risk characteristics than

one that is reversed with 80% in bonds or bond funds and 20% in stocks or stock funds.

If there are five or six portfolio models for you to choose from that reflect variations in risk, then choosing one that meets your risk tolerance will allow you to stay the course when things get dicey in the stock or bond markets. There is a wealth of research to help with the actual selection of asset classes so your portfolio has effective and efficient diversification. Once you have the risk level and diversification right, periodic rebalancing will keep you on track.

We believe that making these investment portfolio guideline choices consciously and methodically will help give investors confidence that they have chosen the right mix for the long-term and will help them avoid making costly mistakes by exiting and entering the stock market based upon how they feel about the current news.

Please note that diversification cannot eliminate the risks of fluctuating prices and uncertain returns. Past performance is no guarantee of future returns, and you cannot invest directly in an index.

(Reprinted from Ventura Star 4/21/2003)

David and Eric Smith

David and Eric are investment advisor representatives of Lifetime Planning, Inc. in Camarillo.

They can be reached at 805-987-8938

*www.lifetimeplanning.biz, or
eric.lifetimeplanning@verizon.net.*

Securities offered through Securities America, Inc., Member NASD/SIPC
