

Market Timing Follies

It has been about two months since the stock market hit its low for this year in the wake of the outbreak of the Covid-19 pandemic. It is safe to say that the overwhelming majority of pundits have been stunned by the magnitude and the sturdiness of the stock market recovery since late March. To be sure, most measures of the stock market remain in negative territory for the year. Moreover, a number of market sectors and individual stocks remain well off their all-time highs. Yet, most observers did not see this powerful rally coming. That said, we will not know for some time whether we are witnessing the beginning of a new bull market.

At this time, I am still not convinced that the path to economic recovery will be swift or smooth. As the market rallies, I am patiently exploring opportunities to sell stocks whose prices have surpassed what I consider fair value. That said, it is important to reiterate our long-held view that market timing is a dangerous proposition, if not a fool's errand.

I received several calls from clients during March who expressed their concerns about the swift market decline. I attempted to allay their worst fears and communicate

that successful equity investment requires a healthy dose of discipline. I reminded them that bear markets are not necessarily an impediment to successful results over long periods of time.

The emotional trauma of seeing one's nest egg contract was undoubtedly intense. Some might have lost sleep and felt anxiety as the situation deteriorated.

But imagine, if you will, a fully invested individual who could no longer bear the pain and panicked near the market lows. When investors decide to "get out" and "wait until the market improves," they are taking the added risk of miscalculating the path of the market recovery.

Panicked investors who sold in late March undoubtedly locked in low prices. They are now also faced with the daunting prospect of redeploying their cash at higher prices. While attempting to relieve the stress caused by a stock market decline, they have compounded their stress by missing one of the most powerful stock market rallies in recent memory.

I always have viewed successful equity investing as a long-term proposition. Thus, when I purchase a stock during uncertain times, I am factoring in the economic challenges in the near term. Even when the economic outlook is bleak,

there are usually any number of attractive opportunities where the long-term potential outweighs the near-term risks.

As evidenced by the recent heightened volatility in the stock market, both on the upside and the downside, it should be clear that investment success is unlikely without the discipline to ride out the turbulence. So, let us resolve to permanently jettison the idea that market timing is a path to better investment results.