How to Time the Market

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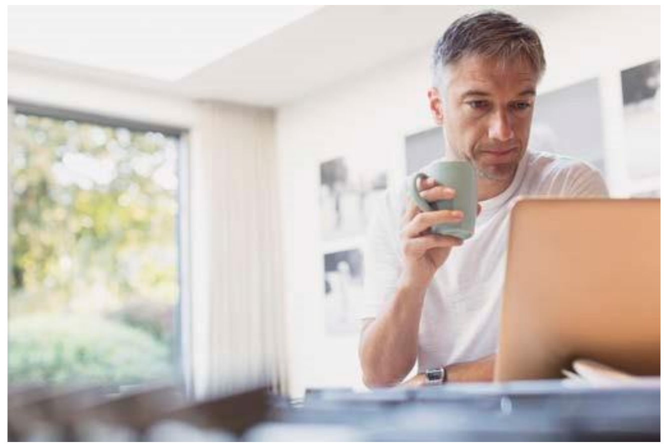

Everyone seems to know, or thinks they know, someone who got out of the market at just the right time. By "just the right time," I mean before the market took a significant spill or drop. People seem to think that financial advisors, if they're worth their weight, will know when the market is going to drop and will advise their clients before it happens, or will withdraw from the market soon after it drops, in order to minimize the impact on their clients' portfolios.

Over the past 28 years of my career, I have yet to meet anyone who can prove they got out of equities and back into them at just the right time. I also haven't met an advisor who advised all his clients to get out at just the right time. This idea seems to be an old wives' tale that lacks factual accuracy.

What's interesting is when you're getting out of the market, there are really two decisions that must be made. The first decision is when to get out, but the second decision — which is just as important, if not more so — is when to get back in. If you're going to purposefully and accurately time the market, you have to get out at the top and get back in at the bottom. When all the gloom and doom is circling and there's blood in the water, and advisors are calling to say things are selling at a discount, it's often difficult to get a client to take action.

The stock market isn't for the faint of heart. On average, the market declines over 10% at least once a year, and dips over 15% at least once every three years. It tends to take a real hit of at least 20% about once every six years. As has been said before, being in the market is like riding a rollercoaster. Over an extended period of time, it's not unusual to see a 30%-plus decline in assets in a typical portfolio. Depending on the size of the decline, the deeper the decline, the longer its average length.

Here's the real question a client should be asking: What is my time horizon? Is my time horizon long enough so that the money I have in the market can withstand volatility? If someone isn't willing to take a long-term view, then they probably shouldn't be in the market. If someone can take a long-term view, then the market is an ideal investment strategy to help build wealth. If liquidity is a concern, cash is a much better instrument.

Another strategy to consider is having no correlating assets. This is a strategy that an advisor can help you with. It's based on the premise that assets work like a seesaw: When one asset is up, the other asset may be down. By holding various assets that don't correlate with one another, it can take some of the bumpiness out of the ride.

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Something else that is important to consider is whether you are in an accumulation phase or a distribution phase. Simply put, are you accumulating money for retirement or a future goal, or are you distributing money on a regular basis to live your life? If you're in an accumulation phase, then market volatility should have a much smaller effect on you than if you are in a distribution phase. In a distribution phase, maintaining liquidity by keeping cash on the sidelines is much more important. The biggest decision is how much cash to leave on the sidelines, because the age-old rule of thumb about the markets is that you want to buy low and sell high. If you need cash and the market is down, you don't want to sell low.

At the end of the day, it's hard to do these things on your own because of emotion and all the noise in the media. What's important is finding a Certified Financial Planner™ professional who can meet with you, understand your objectives, and help you set up a rational game plan and strategy for building wealth, distributing wealth and living your life well.

Sources:
What Past Stock Market Declines Can Teach Us. (n.d.). Retrieved July 19, 2018, from https://www.americanfunds.com/individual/planning/market-fluctuations/past-market-declines.html#