The Perils of Trying to Time the Stock Market

Two years after the COVID-market-bottom, were you fully invested?

The end of March 2022 marked the two-year anniversary of the stock market bottom and the end of the shortest bear market on record. Since then the U.S. stock markets have quickly reached new highs, with the Dow Jones Industrial Average (DJIA) closing north of 33,000 as of late April 2022 (on March 16, 2020, the DJIA closed at 20,188).

During the past two years, investors witnessed the mega-cap DJIA, the large-cap S&P 500, the tech-laden NASDAQ and the smaller-cap Russell 2000 rise sharply since March of 2020 as expectations of improving fundamentals took hold. Adding to the excitement were expectations that the economy might deliver rapid growth (from pandemic-induced depressed levels) that aimed to catch up with the rising stock markets. So, how were you positioned?

Asked more directly: were you fully invested from the stock market bottom or did you try to time the ups and downs of the market over the past two years?

If you tried to time the market, the likelihood of you doing it well is not very high.

Trying to Time the Market

Bank of America put real numbers into quantifying just how much money investors might lose (or not gain) by trying to time the ups and downs of the market.

Examining almost 100 years of data (going back to 1930), Bank of America found that if an investor missed the S&P 500's 10 best days each decade, the total return would have been 28%. If, however, an investor was fully invested through the ups and downs, the return would have been 17,715%. That's not a typo.

Decade	Price Return	Excluding worst 10 days per decade	Excluding best 10 days per decade	Excluding best/worst 10 days per decade
1930	-42%	39%	-79%	-50%
1940	35%	136%	-14%	51%
1950	257%	425%	167%	293%
1960	54%	107%	14%	54%
1970	17%	59%	-20%	8%
1980	227%	572%	108%	328%
1990	316%	526%	186%	330%
2000	-24%	57%	-62%	-21%
2010	190%	351%	95%	203%
2020	18%	125%	-33%	275
Since 1930	**17,715%**	**3,793,787%**	**28%**	**27,213%**

Source: Bank of America, S&P 500 returns

What Should You Do?

When stock markets plunge, as they did back in March of 2020 and as they have to kick off 2022, it is natural for investors to panic-sell. The opposite is also true: when stock markets reach new highs, it is natural for investors to panic-buy.

Both panic-selling and panic-buying can significantly lower returns for longer-term investors by causing them to miss the best days or invest during the worst days.

A better approach might be to simply remain committed to your long-term financial plan. And stay invested.

Your financial professional can help you do both.

rw-04.14.2022