

## Investment Strategy: Time in the Market or Market Timing?

When returns don't meet expectations or markets turn downward, some investors feel the urge to become more active by trying to identify the best times to be in or out of the market. True, many portfolio managers and other professional investors often try to predict the optimal time to buy and sell. But that same strategy can easily backfire for individual investors, potentially leaving them with lower long-term returns than would have been realized if they had held on to investments through thick and thin. In other words, time in the market — not market timing — may be a long-term investor's best ally.

**What Is Market Timing?** Market timing is an investing strategy in which the investor tries to identify the best times to be in the market and when to get out. Market timing is often utilized by professional investors, day traders and portfolio managers who rely on sophisticated economic forecasts and market analysis to attempt to reap the greatest rewards for their clients or shareholders. Proponents of market timing say that successfully forecasting the ebbs and flows of the market can result in higher returns than other strategies.

**Market Timing Has Its Risks.** One of the biggest risks of market timing is the potential of missing out on the market's best-performing cycles. Although past performance cannot guarantee future results, it's worth noting that if you had invested \$10,000 in stocks 10 years ago and missed just the 10 best performing days during that period, you would have ended up with \$14,862. As such, you would have averaged a 4.04% annual rate of return. On the other hand, had you simply stayed invested for the entire 10 years, you would have ended up with \$23,839. That's a 9.08% average annual rate of return.<sup>1</sup>

So perhaps the best move for most individual investors — especially those striving to reach long-term goals — is to purchase shares and hold on to them throughout the market's inevitable ups and downs. This is commonly known as a “buy-and-hold” investment strategy.

**Use Time to Your Advantage.** A buy-and-hold strategy can help investors accomplish two objectives. First, it may help remove emotion from their investment decisions. Rather than become fixated on any inevitable

short-term market swings, a buy-and-hold strategy may help investors stay invested and, thus, stay focused on the long term. Second, a buy-and-hold strategy may also help investors take advantage of the power of compounding, which is the process whereby investment principal and any earnings on that principal subsequently generate additional earnings, and so on.

Buy and hold, however, does not imply that investments are to be ignored. In fact, it is possible that investment needs and goals may change over time. As such, it may be appropriate for investors to review their portfolios with a financial advisor at least annually to ensure that investment decisions and strategies remain consistent with long-term goals.

For example, the portfolio of a young investor pursuing a long-term goal might hold primarily stocks and stock funds. Why? History shows that these types of investments have offered the best potential for growth over time, despite also having the greatest risk of short-term price fluctuations. However, as the investor ages and gets closer to that specific goal, though, he or she may want to rebalance the portfolio in order to preserve principal and reduce risk.<sup>2</sup>

More conservative growth and income-oriented investment vehicles might be the main focus for investors nearing retirement

or saving for relatively short-term goals. And investors who see a possible need for cash in the near future might consider a portfolio weighted toward cash instruments.<sup>3</sup> Simply put, as time goes by, needs and goals change and so may investment strategies.

**Time Is Your Ally.** Clearly, time can be a better ally than timing the market. So the best approach is to arm yourself with all the necessary information, and then consider taking your questions to a professional who can help with the final decision-making. Above all, remember that both your long- and short-term investment decisions should be based on your financial needs and your ability to accept the risks that go along with each investment.

*This article is not intended to provide specific investment advice for any individual. Consult me, your financial advisor, with questions.*

<sup>1</sup>Source: Standard & Poor's. Stocks are represented by Standard & Poor's Composite Index of 500 Stocks, an unmanaged index generally considered representative of the U.S. stock market. For the 10-year period ended December 31, 2006. Individuals cannot invest in any index. Past performance is no guarantee of future results.

<sup>2</sup>Source: Standard & Poor's; Federal Reserve. Based on the S&P 500 and long-term Treasuries (10+ years maturity) for the 50-year period ended December 31, 2005. Investors cannot invest in any index. Past performance does not guarantee future results.

<sup>3</sup>An investment in a cash fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

