

## TIME IN THE MARKETS NOT TIMING THE MARKETS

During times of stock market volatility it is only natural to be concerned about the effects of market fluctuations on your portfolio. In such circumstances it is tempting to postpone new investment and even to sell existing holdings.

All investors would like to be able to predict the movements of the market, buying at the bottom and selling at the top. This strategy is often referred to as 'timing the market'.

### Market timing comes with a wealth warning

Although timing your investments to coincide with the top and bottom of the market's cycles is an attractive plan, it is very difficult to achieve in practice. The reality is that equity markets are rarely smooth or predictable. Often, they over-react to new developments with unpredictable and sharp falls and gains in share prices. Second-guessing these movements is a dangerous game to play and getting it wrong can significantly affect the performance of investments.

Selling at the first sign of a downturn can prove particularly bad. Sharp falls in markets are often followed by sharp gains. While it may be tempting for investors fearing further losses to sell their investments, they potentially risk locking in losses and missing out on gains.

The challenge for new investors is also a question of timing as they seek the "right moment" to invest. Unfortunately this is only usually clear with hindsight. As already mentioned, the real danger is missing the early part of any recovery, as it is often the strongest period of growth.

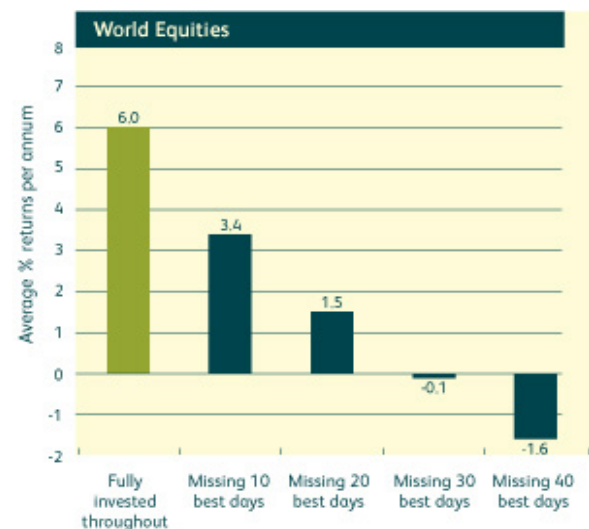
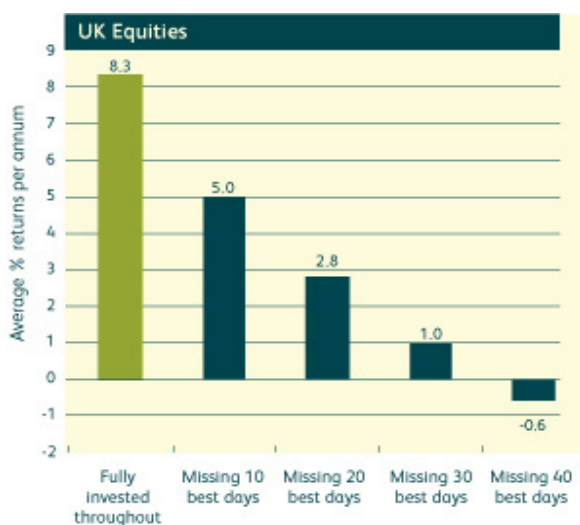
After the dot.com crash, for example, it took 56 months for the US market to fully recover, but half of the total gains were made in the first 16 months (Source: Fidelity analysis, using Bloomberg data on Dow Jones Price Index and S&P 500 Price Index, to 17/09/2008).

### The impact of market behaviour

An investor who stayed in the market throughout the past 20 years would have earned good returns well above inflation. If however, that investor had attempted to time the markets, he or she may have missed the "best days" and because markets move sharply over short-term periods, those days can be very important.

## The impact of market behaviour

As shown in the following bar charts, missing just the best 10 days of the UK stockmarket over the entire 20 years, the returns earned would have fallen from 8.3% to 5.0% per annum. The picture gets much worse the more "best days" are taken out.



Source: Datastream and M&G Statistics, in sterling, income reinvested, as at 30 October 2009.

## Let time do the work

Of course the picture would be reversed, more or less, if we took out the "worst days" for the markets. However, those days are just as unpredictable as the best and market timing increases the risk that short-term volatility can bring to a portfolio – a risk that can be avoided by taking a long-term approach to equity investing.