

Do less, make more

The perils of trying to time the market

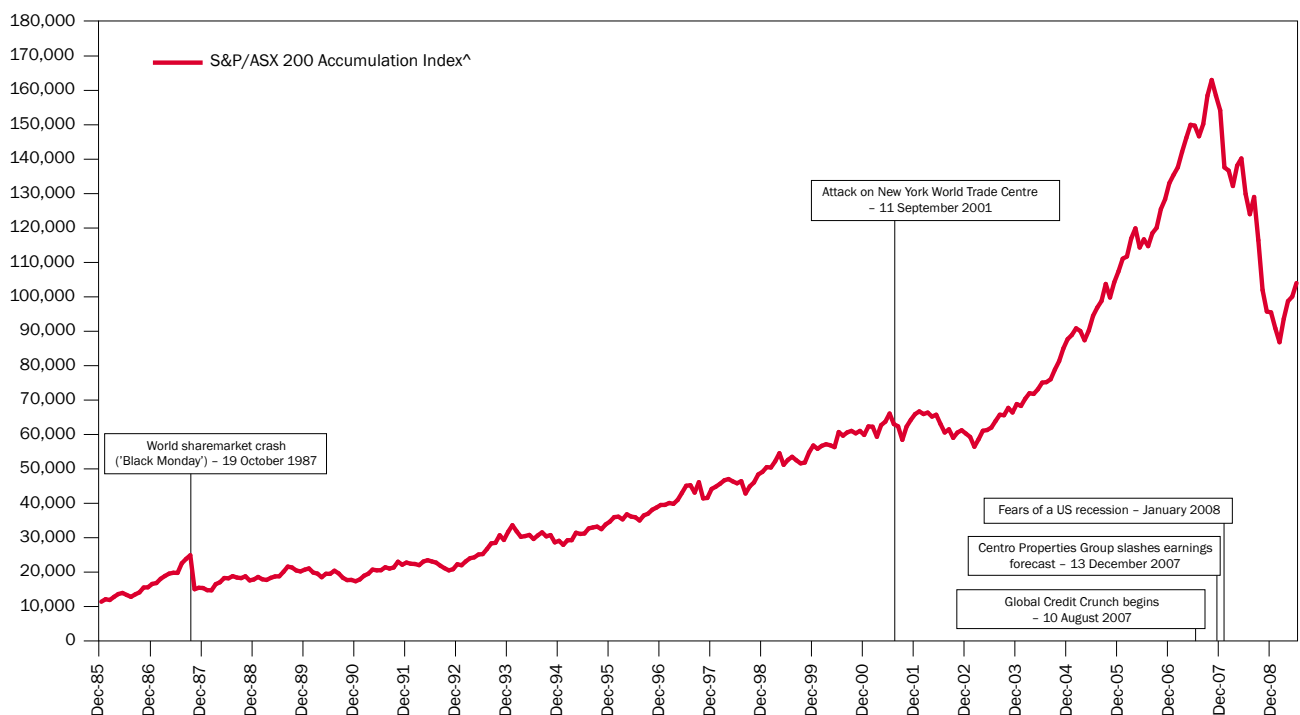
When it comes to investing, many people are their own worst enemy. Fuelled by a desire for short-term gains or the fear of losing money, they buy and sell frequently trying to exploit market fluctuations. Unfortunately this type of speculative trading is often driven by rumours and expectations rather than fundamentals – and often does more harm than good.

Trading too frequently leads to high transaction costs, and reacting too quickly to new information may be fraught with danger. Alternatively, implementing a considered and consistent investment strategy allows you to grow your wealth steadily, but surely, over the long term.

A different perspective

The investments with the highest long-term potential returns are generally the most volatile. Day trading on the sharemarket can be highly risky and is not for everyone. However, when looked at over longer periods of time (five years or more), sharemarkets have proven to be one of the strongest ways to build wealth. This is highlighted in the graph below which follows the fortunes of the Australian sharemarket over the last 22+ years. There have been rises and falls along the way, but overall the trend shows increased returns.

Australian sharemarket performance



Source: Investment Solutions BT Financial Group, Bloomberg

^ The S&P/ASX 200 Accumulation Index was introduced in March 2000, prior to this the ASX All Ordinaries Accumulation Index was used. This chart is based on an initial investment of \$10,000 as at 1 December 1985.

Time in, not timing

There are countless investors who *almost* made a killing on the sharemarket. Ever wondered why? It's often because the largest spikes and falls tend to happen suddenly, over short periods of time.

What's more, strong gains often occur after periods of weak performance and large falls tend to happen after returns have been very strong. So mistiming an investment may not only reduce your profits but also result in significant losses.

The table below illustrates how missing just a few good days can influence your overall return – even over the long term. Naturally by missing a few bad days you would increase your returns.

However the point to remember is that even the most highly trained professionals, with all the data available to them, cannot consistently pick market turning points.

The risk you take on by trying to time the market will often outweigh the extra return you might generate. Instead, you may find that by simply staying in the market you could generate a superior long-term return. The statistics below prove how effective this strategy can be.

Average Annualised Returns over 15 years – effect of missing best days

Market	Index	Stayed fully invested	Best 10 days missed	Best 20 days missed	Best 30 days missed
Australian	S&P/ASX 200 Accumulation Index*	5.0%	1.8%	-0.6%	-2.5%
USA	S&P 500 Index	4.3%	-0.1%	-3.0%	-5.4%

Source: Datastream & Investment Solutions BT Financial Group, at 30 June 2009.

*S&P/ASX 200 Accumulation Index was introduced in May 1992, prior to this the ASX All Ordinaries Accumulation Index was used.

“For the average investor, market timing is similar to going to the casino. Rather than punting your hard earned savings, talk to your financial adviser about having a disciplined and consistent approach to investing.”

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