Motley Fool
Wealth Management

Timing the Market Can Often Mean Missing the Best Days

Watching your portfolio decline is never fun. And when it happens day after day… the pain is palpable. Unfortunately, that's when many investors' emotions can get the best of them, and they want to take action.

We understand where you're coming from. We're investors too. But we're also here to say, "Don't push the panic sell button." Here's why.

When you try to time the market by selling when it's falling with the notion that you'll get back it when it rises again, you'll likely miss the best days of the market. Because the market turns quickly. In fact, over the last 20 years, from January 1, 2004 to December 29, 2023, six of the seven best days occurred after the worst days and seven of the best 10 days fell within two weeks of the 10 worst days within that two-decade period.[1]

So what happens if you sell and miss those best days? Your potential return can fall dramatically. For example, over the last 20 years, if you stayed fully invested in an S&P 500 Index fund, your money should have grown by 9.8%. But what if you sold during a market downturn and then missed those 10 best days, your portfolio would be less than half of that—just 5.6%. And missing the best 20 days would cut your return by more than 70%.

Impact Of Time Out Of The Market

Source: JP Morgan Asset Management. The dollar amount shows the performance of a $10,000 investment between Jan. 1, 2004 and Dec. 29, 2023. Returns are based on the S&P 500 Total Return Index. Indices do not include fees or operating expenses and are not available for investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. Calculations are gross of fees but include reinvested dividends. Hypothetical performance do not reflect actual trading, liquidity constraints, fees and other costs and may not account for the impact of certain market factors such as lack of liquidity. Simulated trading programs are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future results.

So the question is...

Do you have a crystal ball that can pinpoint the exact moment to get back into the market after the worst day? If you do, please share!

None of us knows when the market will hit the top or the bottom. That's why staying fully invested—yes, even through downturns—can be the best way to achieve the highest growth for your wealth. But it's easier said than done. Luckily, a wealth planner can help.

Everyone has blind spots. Unfortunately investors are often misguided by their psychological blind spots, especially during euphoric or distressed markets. Data backs this up. For example, for the 30 years from 1992-2021, the S&P 500 Index averaged 10.7% a year. The average equity fund investor earned a market return of only 7.1% a year.[2]

Why the gap? Investors typically make decisions based on emotion and tend to buy or sell at the wrong time. But a wealth planner can help remove that emotional barrier. Research suggests that access to specialized knowledge can help investors potentially reduce the number of common errors.[3]

For instance, during euphoric markets, a wealth advisor can help keep investor expectations from getting too ahead of themselves. And during distressed markets, they help keep investors calm. Reducing investor's temptation to abandon a well-planned strategy can add percentage points of value-add to a portfolio.[4]

What are more beneficial courses of action? Think objectively. First, schedule ongoing deposits to your account to remove the emotion of when to buy. Second, commit to add a specified dollar amount to your account when it drops by a predetermined amount. Third, avoid unnecessarily checking (and therefore stressing about) your account daily, weekly, or even monthly.

The Takeaway: Remember your wealth goals and objectives. Don't let short-term blips derail your long-term plan.

[1] JP Morgan Asset Management Guide to Retirement. Data from Jan. 1, 2004 through Dec. 29, 2023.

[2] DALBAR, Inc. 30 years from 1992-2021, "Quantitative Analysis of Investor Behavior," 2022. For illustrative purposes only. DALBAR computed the average stock fund investor return using industry cash flow reports from the Investment Company Institute. The average stock fund return figure represents the average return for all funds listed in Lipper's U.S. Diversified Equity fund classification model. All DAL-BAR returns were computed using the S&P 500 Index. Returns assume reinvestment of dividends and capital gain distributions. Investors cannot invest directly in an index.

[3] Vanguard, Putting a value on your value: Quantifying Advisor's Alpha. August 12, 2022. Accessed June 4, 2024.

[4] Vanguard, Putting a value on your value: Quantifying Advisor's Alpha. August 12, 2022. Accessed June 4, 2024.

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