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MARKET TIMING SUCCESS IS ELUSIVE BECAUSE OF CONCENTRATED STOCK RETURNS

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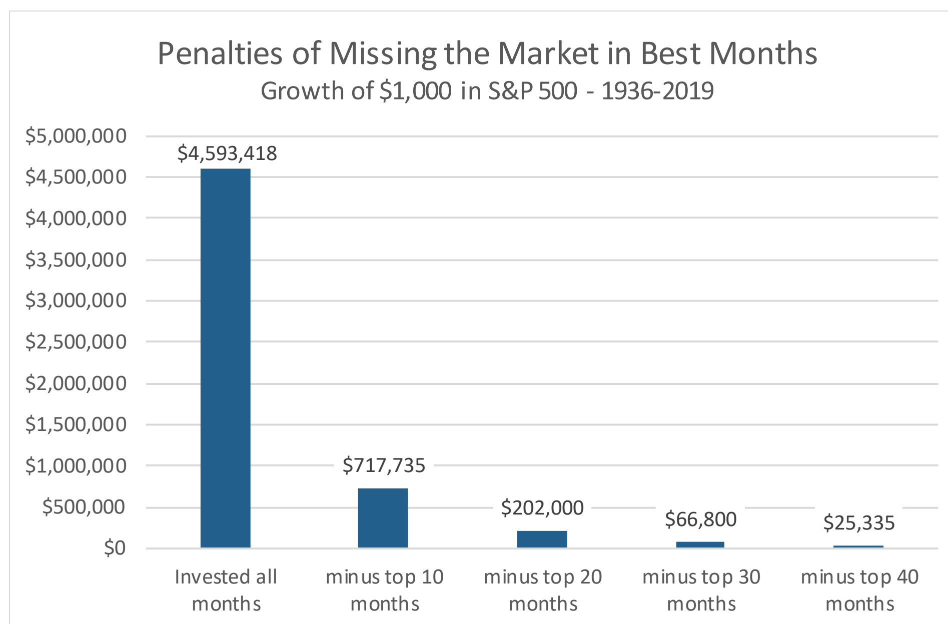
The highest returns in the stock market tend to be concentrated in small intervals of time, whether the intervals are days or months. According to a study conducted by Birinyi Associates on missing the best five days each year during 1966-2001, an investor would have lost 85% of their investment of $1,000 in the S&P 500 Index. Hence, it would have been reduced to $150. On the other hand, a $1,000 investment in the same index would have grown to $11,710 before dividends during the same period. With roughly 260 trading days in a year, this means that 255 days cancel each other out with no loss or gain, and a mere five days account for the entire gain or loss in any given year. What sometimes happens is that the best days follow the worst days or vice versa. For example, on October 9th in 2008, the market dropped 7.3%, its 13th worst drop ever; four days later it jumped 11% for the 5th highest daily gain ever. It is nearly impossible to anticipate moves of this magnitude, especially when so close to each other.

In looking at returns on a monthly basis, data show that the best returns are concentrated in one month every year. An investment of $1,000 in the S&P 500 in 1936 would have grown to almost $4.6 million by the end of 2019 including reinvestment of dividends. The chart below shows the severe penalties incurred by missing the best 10 to 40 months during the 84-year period.

The evidence is overwhelming that it is better to remain fully invested at all times rather than attempting to time the market. There are few, if any, publicly documented track records of successful market timers. In 1978, the Lowry Market Timing Fund was introduced, professing to have a special skillset in timing. In its 13-year existence before closing its doors for good, it was only able to beat the S&P 500 in just 3 years and was significantly behind the S&P 500 over the full period. Market timing offers great intellectual appeal, but history shows that managers having such capability are few and far between.



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