



Market Timing Can Be Costly

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7600A Leesburg Pike
West Building, Suite 300
Falls Church, VA 22043-2004
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Bob Weir, CFA: Director of Research

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Market Timing Can Be Costly

By Robert Rapier
November 13, 2018

Although *Investing Daily* does not endorse any particular brokerages, I don't mind telling you that I personally use Fidelity. Their stock screener has more utility than most; I also find their weekly newsletters to be informative.

I particularly appreciated one of their recent newsletters, because it provided hard data that support two general investing rules of thumb.

The first is, don't try to time the market. This may not be a rule of thumb for everyone, but it is for me. My philosophy has always been that I am better off riding out the rough patches, because timing the market almost inevitably involves missing major moves.

As long as the market is going up, I am not likely to sell. If I am timing the market, I will not sell until it is clear that a significant correction is underway. And if I am waiting to get back in, that will generally happen only after the market is already moving higher.

One of the graphics from the Fidelity Viewpoints newsletter showed the impact of missing major upward moves, which often happen following a market bottom. The example considered \$10,000 invested in the S&P 500 from January 1, 1980 through the second quarter of this year. The assumption was that dividends were reinvested, but it did not consider the impact of taxes.

If the \$10,000 was invested for the entire period, it would have grown to \$708,143.

However, if an investor had only missed out on the best five days during that nearly 40-year period, the return was only \$458,476. That would have cost an investor a quarter of a million dollars. Again, this is important because many of those big days take place as the market reverses following major declines.

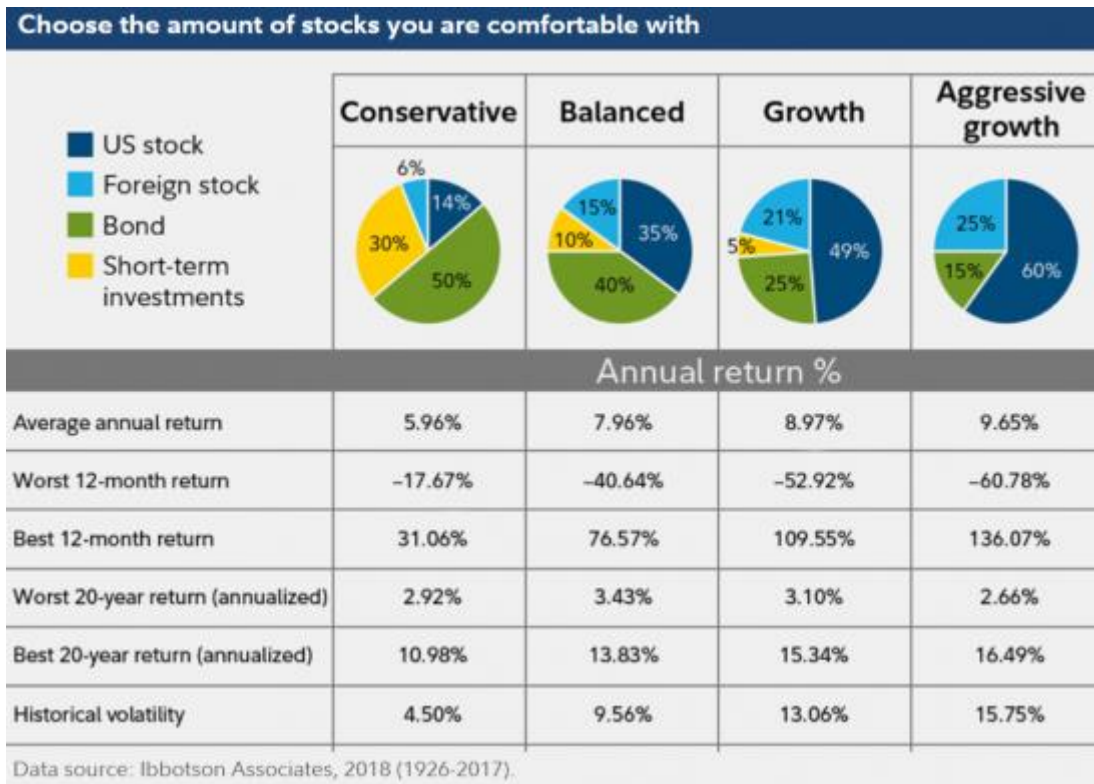
Missing the best 10 days would have dropped the final figure to \$341,484.

Missing the best 30 days would have dropped it to \$135,226.

And if you were unlucky enough to miss the best 50 days, it would have been only \$62,342.

Keep in mind, this only considers missing the major up-moves. If you sold only after a major down-move, you might find yourself in the same boat as some investors who cannot figure out why their investments just do not grow like they think they should.

The second general rule of thumb is that investors should be diligent about investing more conservatively as they grow older. More specifically, don't take undue risks with money you might soon need. Fidelity included a graphic that showed the impact of your investing style on long-term returns, as well as the best and worst cases:



Source: *Fidelity Viewpoints newsletter*

When you are a young investor, you can invest aggressively knowing that the long-term average annual return for this style of investing is nearly 10%. That is, of course, not guaranteed, as the table shows that there was a 20-year period where the average annual return was only 2.66%. But, if we are playing the long-term odds, and we can avoid the temptation to time the market — we should out-perform more conservative investment styles.

Keep in mind that this aggressive style has resulted in a 12-month return of -60.78%. That may be too steep for some, even considering the best 12-month return of over 136%.

Now consider someone near retirement age who may need to live on their nest egg. If they suffered a 60% loss, it could take years to recover from that. For a retiree, this could be ruinous. So, the idea is to get a lot more conservative with your portfolio (again, considering money that you may need within just a few years), and historically you would have sacrificed less than 4% of your annual returns on average in exchange for much lower downside risk.

These are the kinds of visuals that help keep my focus on the big picture. Play the long game and the odds will favor you. But when the game gets shorter, you need to exercise more caution.

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See ABOUT THE AUTHOR below

ABOUT THE AUTHOR



It is hard to imagine anyone better suited to covering the energy-investment waterfront than Robert Rapier. Robert is no armchair analyst—he has two decades of in-the-trenches experience in a wide range of fossil fuel and biofuel technologies, including refining, natural gas production, gas-to-liquids, ethanol production and butanol production. During a six-year stretch at ConocoPhillips, Robert ran a team of engineers in Scotland working on oil and gas projects in the North Sea.

For two years, Robert was an efficiency expert in a Texas petrochemical plant. The process changes he implemented saved the facility \$9 million a year. He later worked as the Engineering Director for a Dutch environmental-technology company and provided engineering support for a Chinese facility the company was constructing.

Robert was also a butanol engineer in Germany for the Celanese Corporation, where he designed a novel butanol unit that cut production costs by \$5 million per year.

In all, Robert has spent more than a dozen years working on liquid fuels technologies. Along the way he has picked up five patents, including one for a breakthrough way to convert ethane into ethylene (U.S. Patent 7,074,977).

Now, in addition to guiding readers to timely energy plays in his twice-monthly *Energy Strategist*, Robert travels the world evaluating start-up energy companies for deep-pocketed investors. After grilling management and assessing the technology on-site, he makes a go/no-go investment decision. His wealthy private investors and hedge fund backers trust him to make the right choice for the same reason we do: his vast real-world experience in just about every facet of the energy industry. If Robert votes thumbs-up, millions of dollars flow into these cutting-edge outfits.

Robert earned his master of science in chemical engineering and a bachelor of science in chemistry and mathematics (double major) at Texas A&M University. He tells us he was “this close” to finishing his Ph.D. before he decided he was having a lot more fun making money in energy stocks.

A prolific writer, Robert’s articles have appeared in *Forbes*, *The Wall Street Journal*, *The Washington Post* and the *Christian Science Monitor* — and he has been a featured expert on *60 Minutes* and *The History Channel*. His new book, [*Power Plays: Energy Options in the Age of Peak Oil*](#) (Apress, 2012), helps investors sort through doom and gloom, hype and misinformation to understand the true costs, benefits and trade-offs for each of our major energy options.

In what little spare time he has left, Robert consults for a number of energy projects, including biodiesel, ethanol, butanol, and biomass gasification facilities.