



Information

The Secret of Investment Timing

The key to maximising your investment gains is to buy low and sell high – an obvious approach. However, timing the market to ensure that you decide when the market is low or high is virtually impossible.

The secret to investment timing is simply staying invested.

Past performance data tells us that, over the long term, equity investments have significantly outperformed the returns available from bank accounts and fixed interest stocks. But we also know that stockmarkets are prone to short-term volatility and this can be quite severe.

It is at times of stockmarket uncertainty when it is tempting to delay making new investments or consider selling existing investments with the aim of investing again when values are lower – a strategy called ‘market timing’.

Past performance is not a guide to future returns.

Market	Staying fully invested	Best 10 Days Missed	Best 20 Days Missed	Best 40 Days Missed
FTSE All Share	8.19%	5.22%	2.96%	-0.81%
S&P 500	9.21%	5.81%	3.17%	-1.15%
DAX 30	9.26%	4.55%	0.96%	-4.34%

Source: Datastream as at 30/06/2008. All figures shown annualized, total returns, taken from 15 year periods, Starting each consecutive month, from 30/06/93 to 30/06/08, in local currency terms. .

Experience tells us that market timing does not work. It relies on a little judgment and a lot of luck to be successful. Being out of the market for just a few days can have a major impact on investment returns.

The chart above highlights that sharp fall *and* gains are often concentrated into short periods of time. For example, missing the best 10 days over 10 years (just 1 day a year) would have reduced annualised UK and US returns by around a third. Missing the best 40 days over a 10 year period would have cut UK and US returns by 90%.

Some would argue that the potential returns are high enough to warrant accepting the risks associated with market timing. In reality, the extra returns that you could achieve with a successful market timing strategy are not that great. They are certainly not significant enough to compensate for the returns you would sacrifice when timing decisions are wrong.

The value of your investments and income from them can fall as well as rise as a result of market and currency fluctuations and investors may not get back the amount invested.

Successful investing is achieved due to the time in the market, not timing the market

