

Market Timing: A Long-Odds Loser's Bet

It can be easy to forget the lessons of the past as the current bull market seems to run infinitely onward. Overextended stock market valuations have a habit of correcting quickly and unexpectedly. Once the crash hits, it's often too late to rebalance a portfolio into more defensive sectors.

Market rebounds have a similar time horizon. Once investors realize markets are on an upward trajectory, many of the best days of returns have been left behind. If you are caught out of the market, waiting for that perfect moment, it's already gone.

To avoid the dangers of market timing, develop a strategy that meets your individual goals and objectives today, and implement it rigorously throughout the market cycle. In January 1997, I called market timing a long-odds losers' bet. Here's what I wrote back then:

A Startling Expose on Market Gambling

The seminal statistical study on market timing was produced by Towneley Capital Management and reproduced by T. Rowe Price for shareholders. The study covered a 7,802-day trading period from 1963 to 1993. It showed that over the entire period \$1 invested grew to \$24.30 (in a capitalization-weighted composite of stocks traded on the NYSE, ASE and NASDAQ). If, however, an investor missed just the best 40 days, or only 0.51% of the days, \$1 grew to only \$6.50. Over 73% of the three-decade gain was blown by missing just the 40 best days. You get the picture. It's a long-odds loser's bet trying to jump in and out of markets. You simply can't afford to miss those few best days, as has been the case for those who have missed the last four months.

When I started in the investment industry in 1964 working for Ed Rosenberg at Clayton Securities in Boston, Dreyfus was king of mutual funds. Today, Dreyfus is less prominent, but still a fine group. Dreyfus offers a nice quantitative fund, Dreyfus Disciplined Stock Fund. The fund's literature details the fund's disciplined approach to stock selection along with its view on risk management.

Dreyfus writes, "The fund seeks to neutralize unpredictable investment risk in a number of ways. The fund's managers are currently committed to the following risk management principals: (1) No market timing, and (2) No industry or economic sector bets." No doubt Dreyfus' managers had their hands on a study of cumulative returns done by competitor Vanguard using S&P/BARRA Growth & Value indexes.