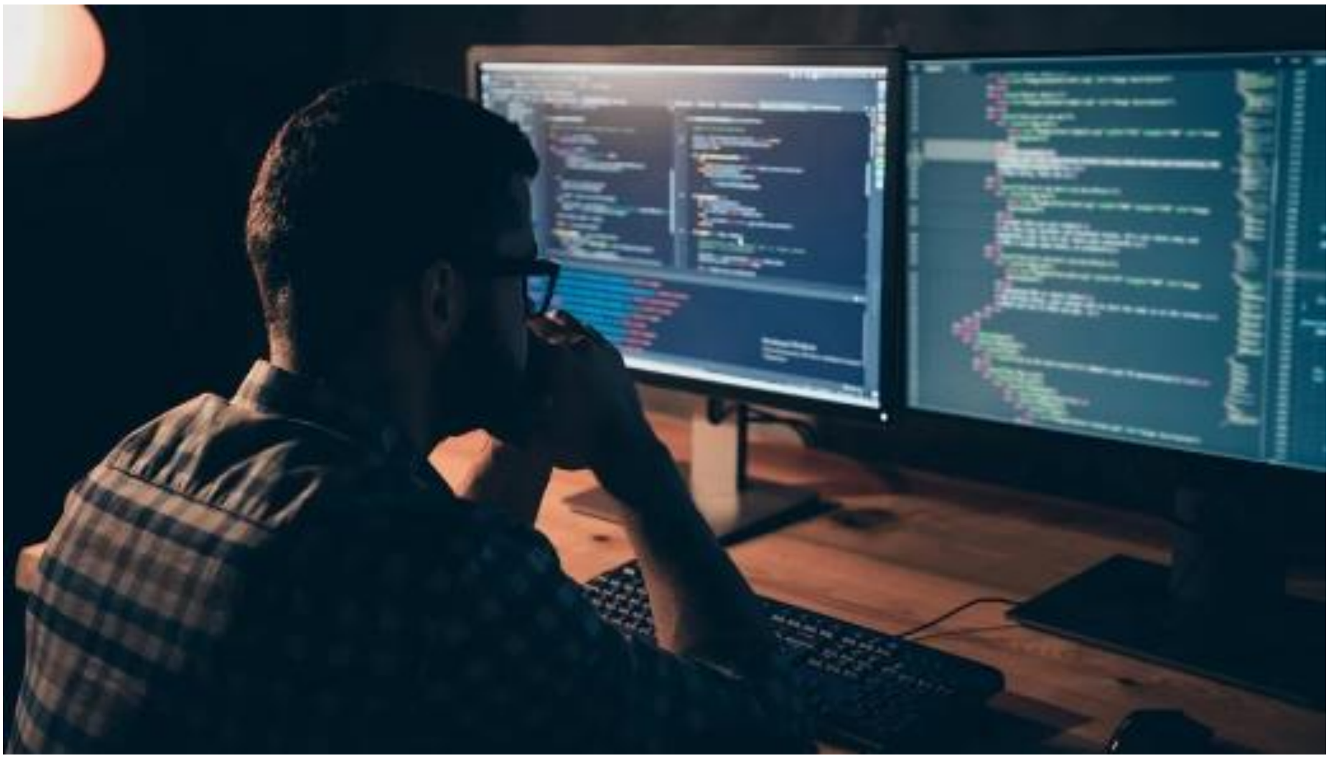
The true cost of ill-timed investment decisions

Volatile markets in 2020 have tempted some investors to try to time the markets. But research shows how difficult and costly this can be.

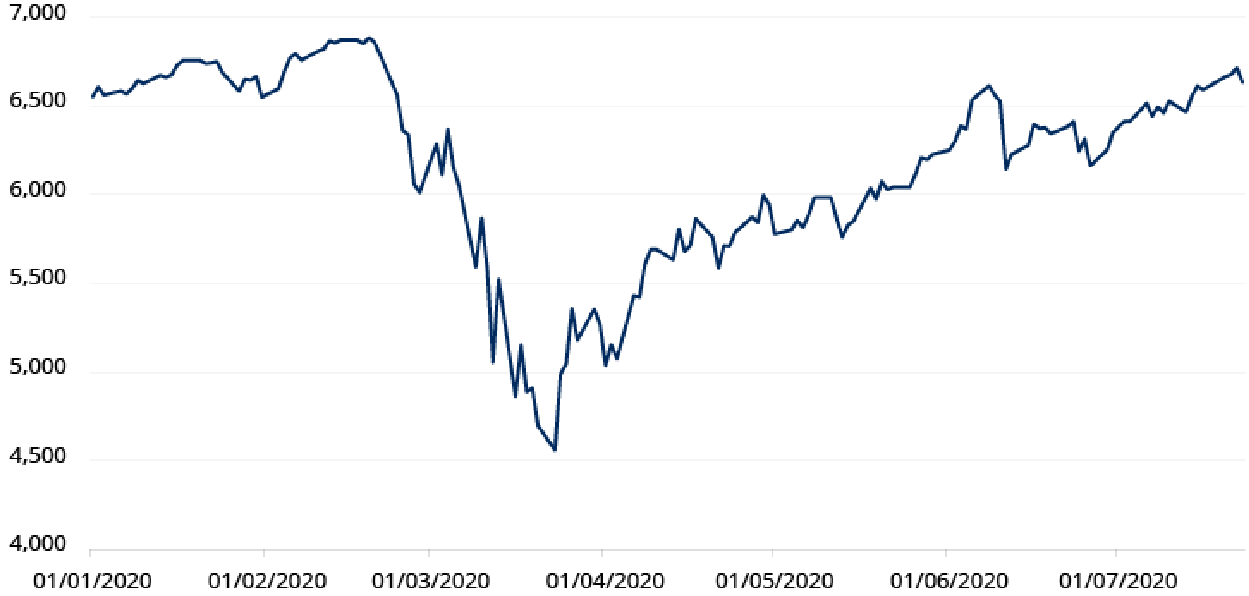


There have been some jaw-dropping moves in stock markets since the turn of the year and the outbreak of the Covid-19 pandemic.

A near 11-year record bull-run for US stocks came to an abrupt end in early February. What followed was the shortest and sharpest correction in stock market history as economies shut down.

Quick action taken by governments and central banks to support the global economy soon saw a rapid bounce back.

The historic fall and rise of US stocks
S&P 500



Past performance is not a guide to future returns.
Source: Schroders. Thomson Reuters Datastream. Data shown is for the S&P 500 total return index, which includes dividend payments, between 1 January 2020 and 23 July 2020.

Timing the market

The volatile swings have presented opportunities, tempting some investors to try to buy when the market was at its low and sell when it bounced back.

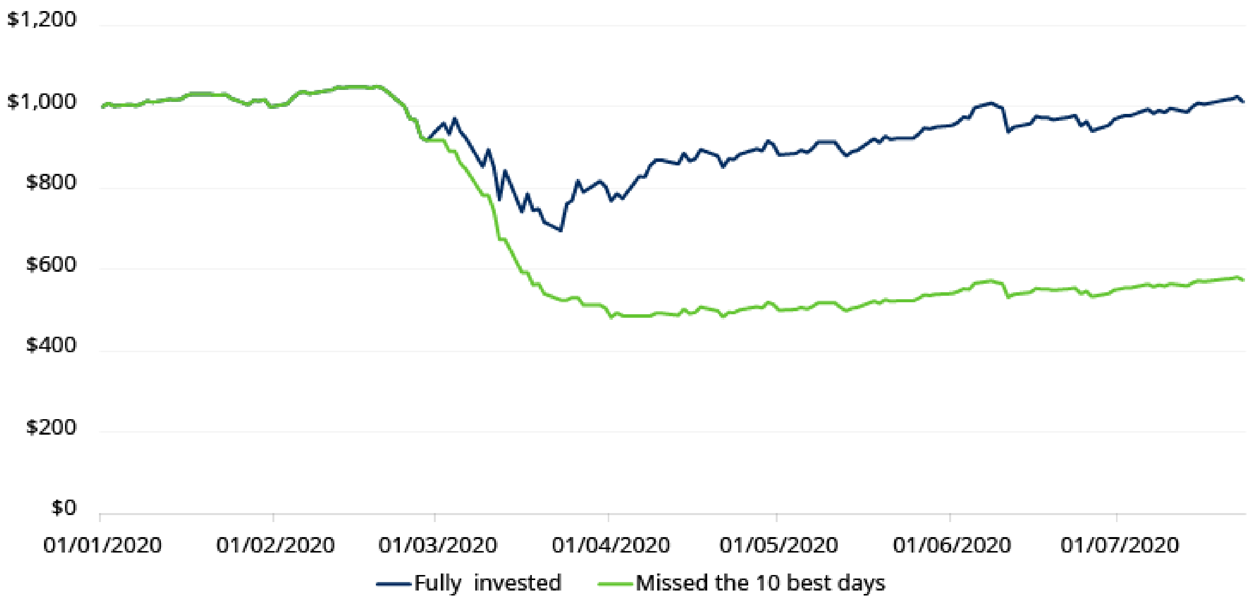
However, timing the market is notoriously difficult.

This research shows that, even over a short period such as the last six months, trying to time the market could have proved costly. This is because some of the biggest market moves – in either direction – often happen in just a few days. Whether or not you are invested on those days plays a big part in determining the outcome.

An investment of $1,000 on 1 January 2020 and left alone, even as markets swung wildly, would have been worth $1,012 by 17 July.

However, if you had tried to time the market and missed the 10 best days, the same investment would now be worth $574.

Return on $1,000 in S&P 500 since January 2020



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Time in the market

The last three decades have seen some of the biggest stock market crises in history.

The dot com bubble, the global financial crisis and now the pandemic have all caused huge volatility in markets.

Mistimed decisions during that period on an investment of $1,000 could have cost you nearly $14,000-worth of returns.

If in 1990 you had invested $1,000 in the S&P 500 and left the investment alone for the next 30 years it would now be worth $17,074. (Bear in mind, of course, that past performance is no guarantee of future returns.)

However, if you had tried to time your entry in and out of the market during that period and missed out on the index's 30 best days the same investment would now be worth $2,934, or $14,139 less.

Return on $1,000 in S&P 500 since 1990

	Return on $1,000	Annualised return
Fully invested	$17,074	9.90%
Missed the 10 best days	$7,822	7.10%
Missed the 20 best days	$4,617	5.23%
Missed the 30 best days	$2,934	3.65%

Past performance is not a guide to future returns.
Source: Schroders. Thomson Reuters Datastream. Data shown is for the S&P 500 total return index, which dividend payments, between 23 July 1990 and 23 July 2020. Returns not adjusted for fees or inflation.

Nick Kirrage, a Fund Manager, Equity Value, and a blogger on the Value Perspective, said:

“You would have been a pretty unlucky investor to have missed the 30 best days in 30 years of investing, but the figures make a point. The point is that timing the market can be very, very costly.

Investors are often too emotional about the decisions they make: when markets dive, too many investors panic and sell; when shares have had a good spell, too many investors go on a buying spree.

The irony is that historically many of the stock market’s best periods have tended to follow some of the worst days, as shown in previous research.

It’s important to have a plan for how long you intend to stay invested, with that plan matching the goals of what you’re trying to achieve, be it money for retirement or your children’s university education. Then it's just a matter of sticking to it - don't let unchecked emotions derail your plans.”