Must Be Present To Win?

Assessing The Fallacy Of "Staying Invested Or Risk Missing The Move"

The traditional advice of Wall Street has been that "*since you can't time the market*" investors should remain invested in stocks at all times to avoid the risk of missing the opportunity for returns. One statistic often cited is that most of the market's return occurs on a few days and, if an investor is not invested on those days, the investor will under perform the market.

This statistical fallacy relates to the selective use of the extreme numbers in a diverse series. There are approximately 250 trading days each year. In both bull markets and bear markets over the past century, the 'up' days represent between 45% and 55% of the days (2002 and 2003 were on each end of the range), nearly half of all trading days. As a result, most of the days offset each other. So regardless of the total return for the year, a small number of the most extreme days will total up to equal the net return for the year--whether positive or negative.

Although the fallacy of "Staying Invested" is technically true, so are the following statements from the same data:

1. A few days will represent all of the losses in down years; get out of the market on those days to avoid down years.

2. In all years, the 2 or 3 best days will produce total returns of over 10%; therefore, learn to time the market.

EXAMPLES USING 2002 & 2003	2002	2003	Combined
Percent of Days Up	44.2%	54.8%	49.5%
Annual Return (S&P 500 Index)	-24.2%	26.4%	-2.1%
Worst 10 Days (Total Return)	-28.4%	-20.5%	-24.6%
Return Without Worst 10 Days	5.9%	59.0%	29.8%
Best 10 Days (Total Return)	50.8%	29.6%	39.8%
Best 2 Days (Total Return)	11.5%	7.1%	9.3%

SUMMARY: It's not realistic to consistently time the market. Staying invested subjects investors to the losses as well as the gains in the market. There have been extended periods of years that produced strong returns (secular bull markets) and extended periods of sideways to declining trends (secular bear markets). It may be wise to assess the market conditions and characteristics to determine which secular period is in force and to adjust one's allocations accordingly. Another Wall Street adage states that the allocation decision determines most of the investment performance--therefore, invest when and where returns are most likely.

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