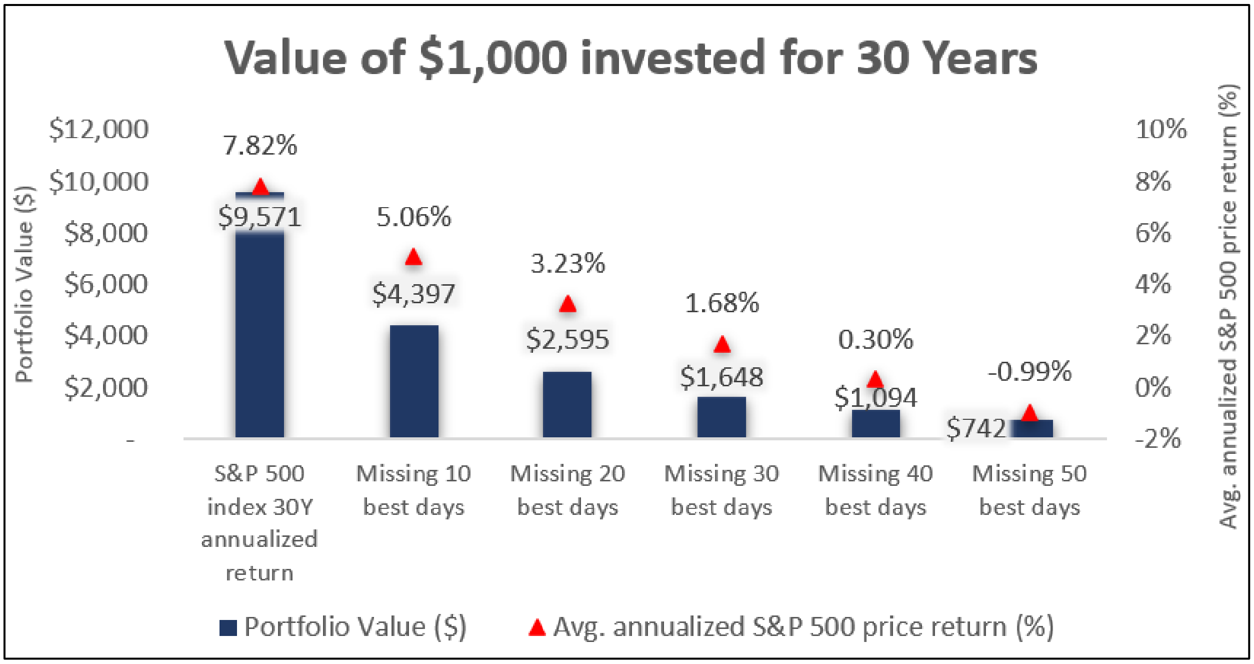
# Timing the Market is a Near Impossible Task

The popularity of short-term trading increased significantly following the elimination of transaction fees at retail brokerages and the volatility of the past few years has further increased its appeal to average investors. This frequent entering and exiting of positions often have the unintended consequence of missing the market's best days. Peter Lynch, renowned investor and former manager of the Fidelity Magellan Fund, states that “Far more money has been lost by investors trying to anticipate corrections than has been lost in corrections themselves.” A significant portion of annual stock market returns are driven by just a few days with strong performance. By attempting to time the market with a significantly elevated cash position, investors miss these opportunities for gains, which can have a compounding negative effect on overall portfolio performance. Additionally, actively trading equities can also increase transaction costs, particularly the classification of capital gains taxes, which can further reduce returns.

The stock market is highly unpredictable, and trying to time the market by actively trading in an attempt to capture short-term gains can be a challenging and potentially costly strategy. Instead, a long-term, buy-and-hold approach to investing in a well-diversified portfolio of quality stocks over a longer investment horizon, regardless of short-term market movements, is a better strategy.

Missing the 20 best days in the stock market over a 30-year period has resulted in a portfolio that is approximately 1/4 the size of a portfolio that stayed fully invested. The stock market has the potential to generate high returns over a long period of time; missing even a few of the best days can result in a lower overall return. According to Bloomberg and the Wells Fargo Investment Institute, missing the best 20 days from September 1, 1992, through August 31, 2022, led to an annualized underperformance versus the S&P 500 of 459 basis points. This highlights the importance of staying fully invested over a long period of time.




It is also worth noting that 78% of the stock market’s best days occur during a bear market or during the first two months of a bull market. Often the best days and worst days can be close together and sometimes happen on consecutive trading days. The DALBAR Quantitative Analysis of Investor Behavior (QAIB) utilizes mutual fund inflows and outflows combined with market performance to determine whether investors are "right" or "wrong" in their market timing. According to the report, investors tend to anticipate market direction correctly about half of the time. However, due to the compounding nature of returns and the math of percentages (ex: a 100% return is required to recover from a 50% decline), this success rate ultimately leads to significant underperformance verses the market over time.

In conclusion, attempting to time the market and avoid the worst days often a futile, and potentially harmful, endeavor. As is reflected in Brookmont's investment philosophy, a long-term investment strategy with a diversified portfolio composed of quality investments is capable of outperforming speculation on market volatility. Remaining fully invested throughout market cycles in companies with secular growth drivers and strong cash flows is a major driver in wealth creation and preservation.

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