The Futility of Market Timing

We are not big fans of market timing. Those that profess to have such a skill before the fact ~~often~~ always turn out not to have had much skill in hindsight. Of those that do turn out to appear to have skill, that was actually supposed to happen. As we wrote in "Prediction and Paul the Octopus" (the German octopus that correctly "called" eight successive World Cup matches back in 2012[1]):

> *"Paul was – metaphorically – flipping coins, and got lucky eight times in a row. The odds against doing so were 256-1. Impressive indeed! However, with two billion octopuses swimming in the oceans, there were eight million other eight-tentacled freaks out there just as good as Paul. They just didn't get any publicity."*

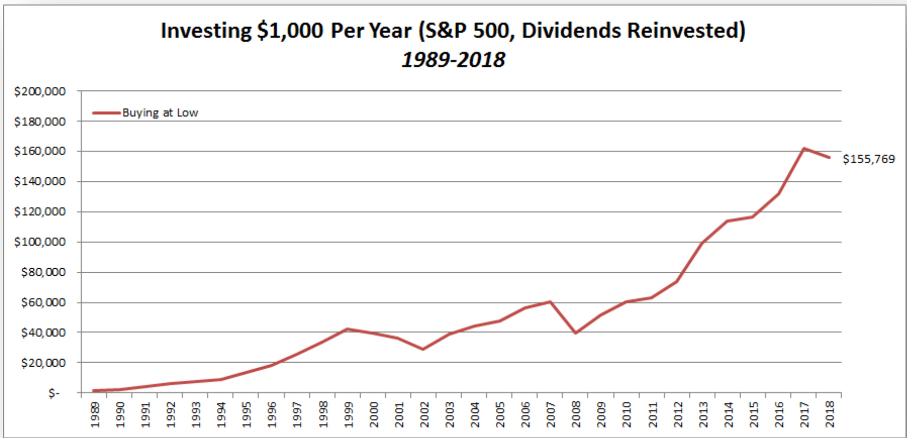
With that, we've tried looking at the importance (or not) of market timing through a different lens.

Imagine you are 25 years old, and you are going to invest \$1,000 per year into the S&P 500, and do so for the next 30 years of your life. Then imagine that you also were trying to pick the *perfect* day to invest that \$1,000; and that you indeed picked that perfect day, each year, over the next thirty years to do so. The odds of you picking that perfect day each year for thirty consecutive years were $(1/253)^{30}$, or a one-in-1240 followed by another 69 zeros' chance.

We all can't be Fergie

But, let's imagine you were that good.

Now let's imagine you are 55 years old today, and started this practice back in 1989. And after investing your \$1,000 annually, picking the low daily close each year for the next thirty years, you would – today – have \$155,769.



If this is you (it's not), well done!

Now, imagine the unluckiest market-timer in the history of capital markets. Not just unlucky, but actually extremely good at being extremely bad. Imagine this investor – instead of picking the absolute best day to invest his \$1,000 each year – picks the absolute worst day.

Will he end up with \$50K? Maybe \$75K? How much worse off do you think he is?

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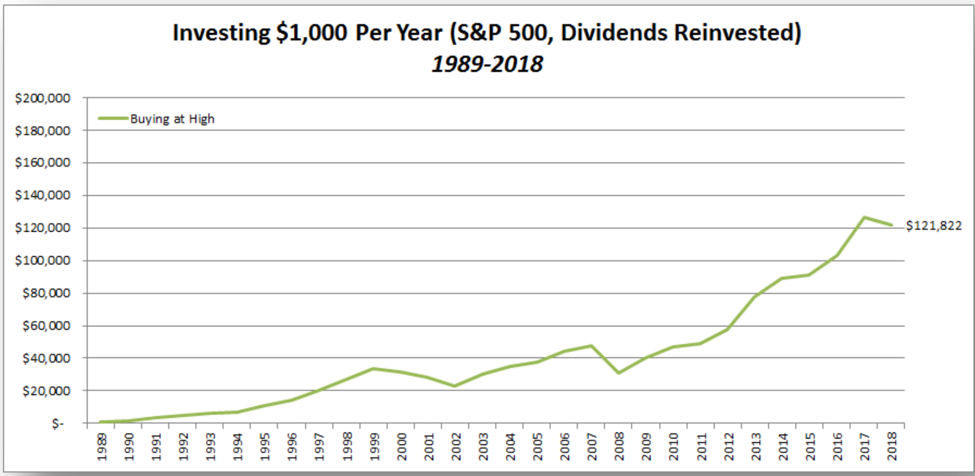
[1] *https://www.albertbridgecapital.com/drews-view-archive/2017/10/31/predicting-macroeconomics-and-paul-the-octopus*



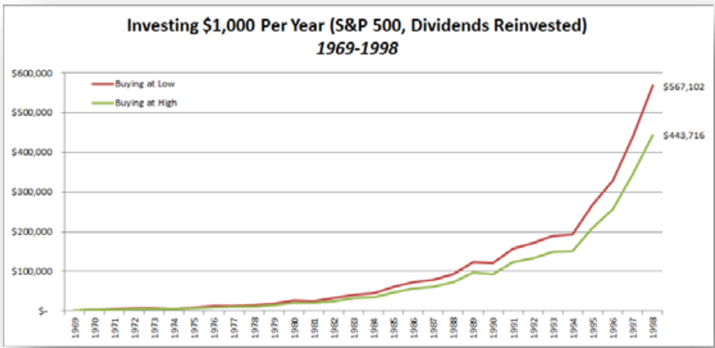
This guy, the worst market timer ever, investing $1,000 at the very worst possible time each year, still has $122K.

So the difference between the perfect idiot and the man with perfect foresight, is the idiot has nearly 80% of the nest egg as the impossibly accurate market-timer.

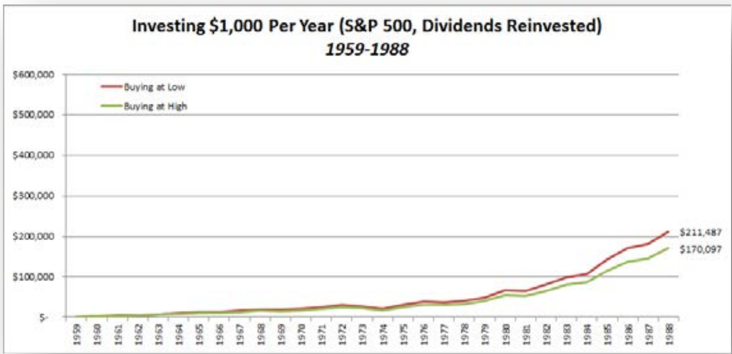
So, not only can you not pick the perfect day to invest, there isn't even a whole lot of upside from trying!

And this isn't just a recent phenomenon.

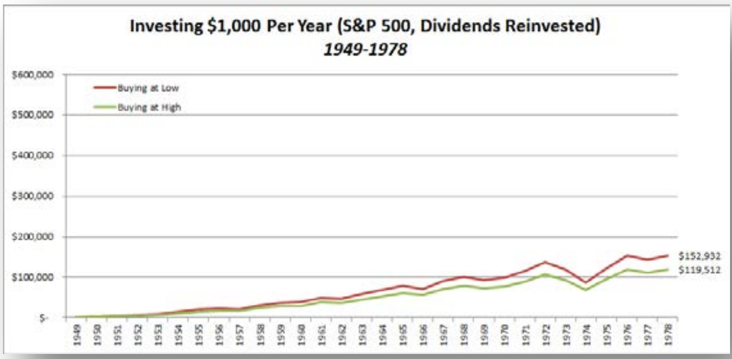
Here it is to 1998:



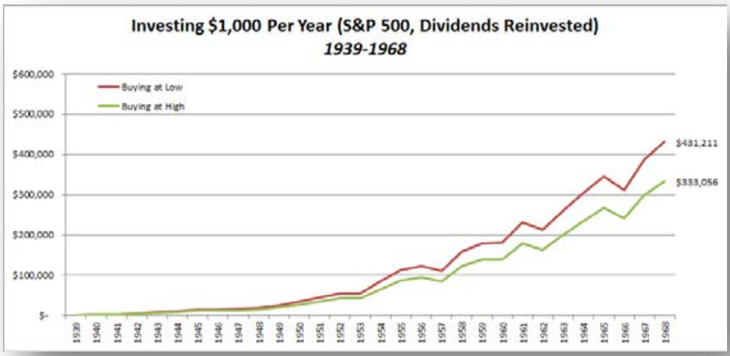
And to 1988:



And to 1978:

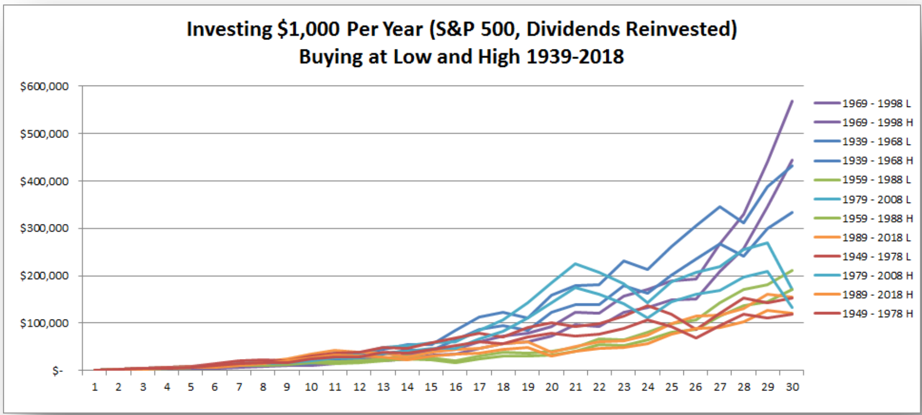


And to 1968:



In each period, the difference between perfect foresight and perfect idiocy wasn't massive.

There of course can be thirty year periods that are better or worse than other thirty year periods. That's just the luck of the draw, and we certainly don't know what the next 30 years will hold. If we line the historical periods up together, there were even some three-decade periods where buying the high of the year was better than buying the annual low of another 30 year period.



So don't get cute. Even if you think you are better than average, you just aren't going to get much out of it. Stop trying to pick the perfect time to invest, whether it's your annual IRA/ISA contribution, 401K, or other pension contribution. Just invest, and get back to work.