Calm, Steady and Common Sense Series

The Days You Might be Missing Could Hurt Your Investment Results

White Paper

The **Calm, Steady & Common Sense Series** explores how using emotion as your investment guide could cost you return on your investments.

The Days You Might be Missing Could Hurt Your Investment Results white paper examines a study by J.P. Morgan Asset Management that analyzed the effects of not being invested in the stock market during some of its best days over a 20-year period.

A wise man once said "the best way not to be hit by a train is not to be on the tracks." While that may appear to be sage advice to avoid a major confrontation with a locomotive, this wisdom may fall short as an analogy for the stock market.

Some investors try to time the market in an attempt to avoid the oncoming train of a declining market. The strategy is simple...be in stocks when they are advancing and be out of the market when it is losing value.

One of the biggest challenges with this strategy is that you have to be right twice. Not only does your timing need to be right when coming out of the market, but your timing also has to be right as to when you get back into the market.

Coming out of your investments too soon or getting back into the stock market too late, and possibly missing the best days of the market, could potentially be devastating to an investment portfolio, according to recent study by J.P. Morgan Asset Management who analyzed the stock market for the 20-year period ended December 31, 2018.

What they found was that over that 20-year period, the S&P 500 returned an annual compounded rate of return of 5.62%. That means a hypothetical $100,000 in an investment that was able to generate the returns of the S&P 500 would have been worth $398,450 by the end of 2018. Said differently, you potentially would have earned $298,450 for every $100,000 you had invested.[1]

The study examined attempting to time the market and the resulting impact of selling out of stocks too early or coming back in too late and missing some of the market's best days.

According to the study, if you missed only ten of the best days of the market, you would have lowered your return from 5.62% down to 2.01%.

This means that the same hypothetical $100,000 investment would have only grown to $248,950, which means you would have $149,500 *less* for every $100,000 invested compared to had you stayed fully invested.[1]

If you feel that the likelihood you would have missed ten of the best days is remote, I would like you to consider the following.

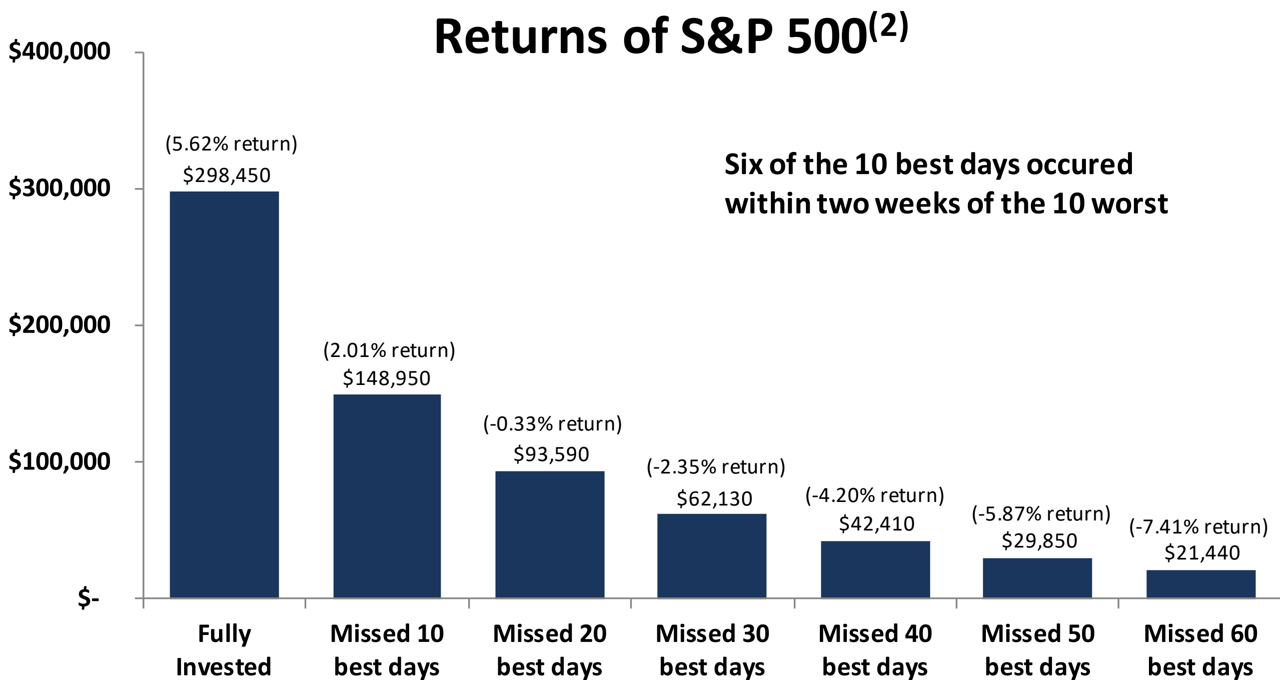
Based on J.P. Morgan Asset Management's research, six of the ten best days of the market happened within two weeks of the ten worst days for equities. If you had tried to time the market, would you have had the courage to be back in the market within two weeks of those absolute worst days for stocks?

The JP Morgan Asset Management report becomes even more worrisome when you consider that over the 20-year period ending December 31, 2018, there were approximately 5,120 trading days. If you missed only 60 of the best days of the market during that 20-year period, your return would drop from 5.62%, had you stayed full invested, down to a disturbing -7.41% annual compounded return. It is worth repeating that this is simply by missing 60 out of approximately 5,120 trading days over a 20-year period.

This would mean that your hypothetical $100,000 in an investment that was able to generate the returns of the S&P 500 would be worth only $21,440 during this 20-year period ending December 31, 2018.[1]

The result of missing these 60 days over this 20 years would be what we consider to be a significant $377,010 loss in your net worth for every $100,000 invested* over the 20-year period as you tried to time the market compared to remaining fully invested.[1]

Few want to miss the best, and the same could be said about investing in the stock market.



Disclosures

[1] Source: Dunham & Associates. This hypothetical amount does not include the affect of taxation of dividends and capital gains.

[2] Source: Prepared by J.P. Morgan Asset Management using data from the Morningstar Direct annualized returns based on the S&P 500 Total Return Index. This chart is for illustrative purposes only and does not represent the performance of any investment or group of investments.

Investments are subject to risks, including possible loss of principal. Investors should consider the investment objectives, risk factors and expenses of any investment carefully before investing. Diversification does not guarantee profit or ensure against loss.

The S&P 500, or the Standard & Poor's 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 Index components and their weightings are determined by S&P Dow Jones Indices. It differs from other U.S. stock market indices, such as the Dow Jones Industrial Average or the Nasdaq Composite index, because of its diverse constituency and weighting methodology. It is one of the most commonly followed equity indices, and many consider it one of the best representations of the U.S. stock market, and a bellwether for the U.S. economy. You cannot invest directly in an index.

All examples are hypothetical and are for illustrative purposes only. We encourage you to seek personalized advice from qualified professionals regarding all personal finance issues. The solution for an investor depends on their and their family's unique circumstances and objectives.

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