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Economic Newsletter

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Time in the Market Beats Timing the Market

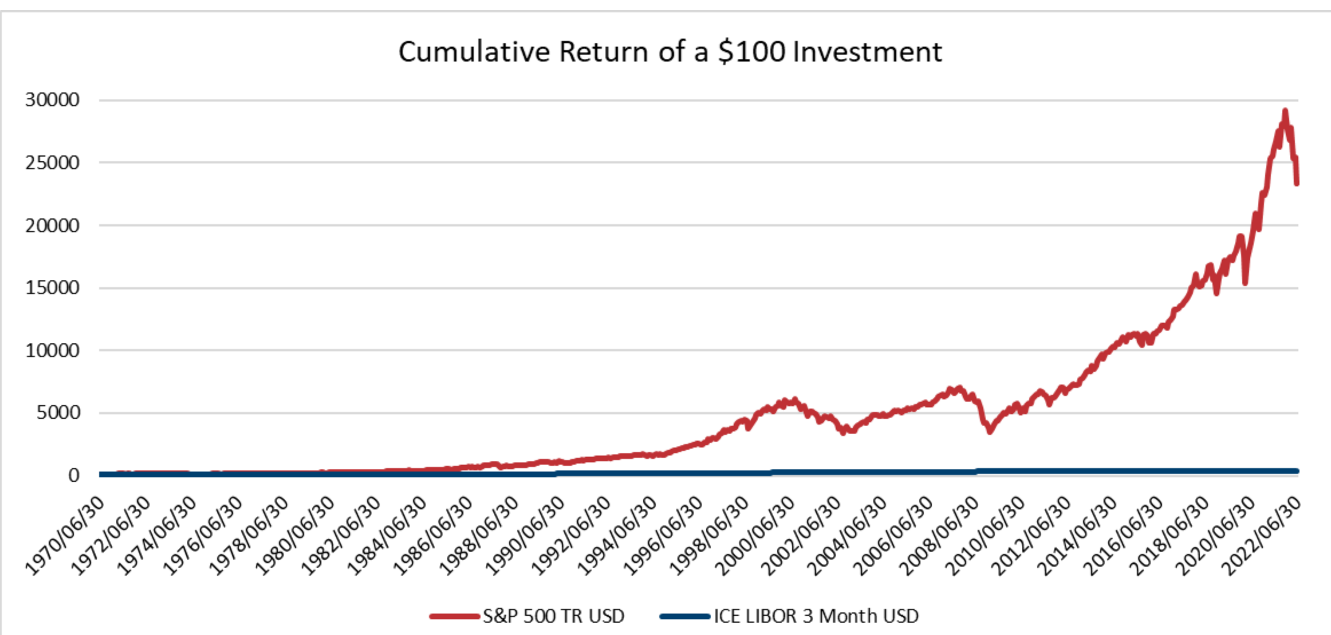
Ken Fisher's quote above serves as a good reminder during periods of high market volatility that those who aim to outperform the market by trying to time their buy and sell decisions seldom outperform those who stay the course and simply remain invested.

It should not be new information to hear that equity markets around the globe have had an extremely tough start to 2022. By now most investors have probably heard via one source or another that the American Equity Market, as measured by the S&P 500, has had its worst half year since 1970. Measured in dollar terms, the S&P 500 was down -20.0% over the first six months of the year, an extremely negative return by any definition. Whilst the markets were able to claw back some of their losses during the month of July, they are still well below their highs of the end of 2021.

The last time the US Market experienced such a negative first half of the year was back in 1970, when the market dropped by just over 20% from January to June. The decline in 1970 was driven primarily by significant petroleum shortages and resultant price increases, not too dissimilar to the oil and gas shortages we are experiencing today as a result of Russia's invasion of Ukraine.

While the articles that have conveyed this information have probably had the desired effect of rattling investors, almost all commentaries on the topic have failed to mention how markets subsequently performed after the fall of 1970. In the following six months, markets rebounded strongly and rose by 29%, finishing the year up by 9.5%. If one were to extend that period until today, the S&P 500 has risen by a whopping 23,233% since the drop of 1970 (to the end of June 2022).

Put another way, a $100 investment in July of 1970 would be worth $23,333 today, even after taking into account the current decline we are experiencing in markets. Had investors capitulated back in 1970 and moved into cash, their initial $100 investment would be worth a little over $350 today, hardly a "safe haven" when considering the growth they've lost out on.



Taking a Longer-Term View

Looked at over a long-term period, the Black Monday crash of 1987, as well as the Dot-com bubble of the early 2000's are little more than blips in the relentless upward trajectory of the American Stock Market. Compare that to US Cash (indicated by the blue line on the previous page), which appears to never even make it off the ground.

It is worth conceding, however, that not all investors have a 50-year time horizon to ride out the ebbs and flows of market cycles. Yet even if we reduce the period to a more realistic 20 year horizon, the results remain intact.

Over the last 20 years our local FTSE/JSE All Share Index has returned 1,046%; well ahead of the 315% return that local cash has given over this time (both in rand terms). Similarly, global equity markets (measured by the MSCI World) have returned over 300% in dollar terms, whilst the European FTSE 100 has returned a little over 220% in Pound Sterling, both well ahead of their respective cash indices (all to the end of June 2022).

These results provide a strong case for investors to stay the course and remain invested. In his latest interim letter to Shareholders, Terry Smith, lead portfolio manager of the Fundsmith Equity Fund stated, "it may be tempting to sell equities and go into cash as this may enable you to avoid further falls in the equity market. Timing is of the essence in doing this and if you haven't done it already I think we can safely say you missed the top. Getting the other side of the trade roughly right will almost certainly mean buying back into equities when economic conditions are at their most bleak. This is a skill which few, if any, possess. Meanwhile, time spent in cash whilst waiting is hardly a good bolt hole from inflation."

Terry's comments, along with the return graph on the previous page, perfectly reinforce the old investment adage that "*time in the market beats timing the market".*

Whilst there is a high probability that markets will experience further volatility in the short term, selling out and going into cash risks missing out on any subsequent equity rebounds and the associated capital growth.