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INVESTMENTS

STAYING INVESTED MATTERS.

THE POWER OF TIME OVER TIMING.

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Much has been said about the risks involved with timing the market, and rightfully so. Most investors are terrible at predicting the market, often finding themselves buying high and selling low. During sharp market volatility, it becomes tempting to move to cash or alter your regional allocation to perceived safer markets. However, these moves often end up destroying value.

THE PROBLEM WITH MARKET TIMING

Despite our natural aversion to falling markets, some of the biggest one-day upswings occur during these volatile periods. While dodging the worst days can be beneficial, missing out on the best days can equally be disastrous to your long-term investment goals.

The tables below show how different scenarios would have impacted the growth of R100 over 20 years on the JSE All Share, and the MSCI World, ending January 2025.

JSE ALL SHARE (ZAR)	ENDING VALUE	ANNUALISED RETURN
Fully invested	R1 271	13.99%
Miss 10 best days	R703	10.98%
Miss 10 worst days	R2 600	17.91%
Cash	R392	8.29%

MSCI WORLD (USD)	ENDING VALUE	ANNUALISED RETURN
Fully invested	R511	9.47%
Miss 10 best days	R172	5.13%
Miss 10 worst days	R726	11.13%
Cash	R173	5.15%

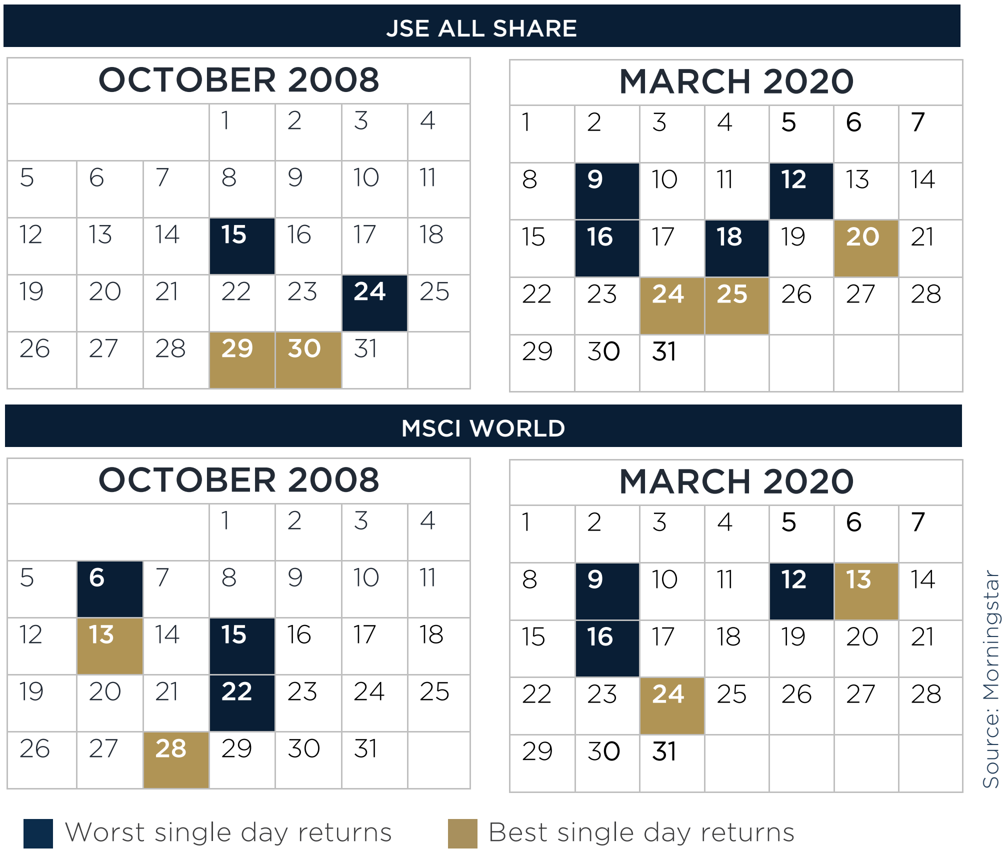
Source: Morningstar

Based on the above information, it seems the best strategy is to miss the worst days. Exiting when trouble arises and reentering once conditions improve. However, the challenge lies in accurately predicting the beginning and the end of market downturns. for example, the lead up and duration of the 2008 Global Financial Crisis (GFC) were prolonged, whereas the 2020 COVID crash was as sudden as its recovery.

BEST AND WORST DAYS: CLOSER THAN YOU THINK

Even if you can accurately spot the signs of a market crash, some of the best and worst days over the past 20 years happened very closely together. This makes it extremely difficult to avoid the worst days in the market while also benefiting from the best days. After all, each recovery is unique.

The illustrations below show two of the most volatile months in the last 20 years as we return to the GFC and COVID crash. Of the 10 best and worst days in the past 20 years, most occurred during October 2008 and March 2020. For both the JSE All Share and the MSCI World, some of the market's best and worst days occurred a few days apart.



Based on the above, it becomes clear why it is so difficult to time the market.

RIDING THE VOLATILITY WAVE

Despite attractive returns from fixed income, growth assets have performed very well over the past 5 years despite the rollercoaster volatility. And as we step into the second half of this decade, it appears that this trend of heightened volatility will continue.

While it is difficult to alleviate client anxieties, we can educate them about the dangers of emotion-based investing and the risks associated with being too active within one's portfolio. Market declines are a natural, inevitable part of investing in equities and those declines are often unpredictable and difficult (or impossible) to forecast. The best way to ensure adequate saving at retirement is to avoid timing the market and continue investing in equities during market declines.

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