TIME, not TIMING: the key to successful investing

All information as at 28 February 2009 unless indicated otherwise

When the market climate is uncertain, investors often become nervous and lose sight of their long-term investment goals. They are often tempted to postpone new investment and even to sell their current holdings with the aim of reinvesting when the stock market stabilises.

However, if investors are able to take a long-term view, they should consider holding onto investments through periods of volatility.

The pitfalls of market timing

Of course, all investors would like to be able to predict the movements of the market, buying at the bottom and selling at the top. This is called market timing.

Unfortunately, it is very difficult to time movements in and out of the market, particularly in periods of extreme volatility. And getting it wrong can significantly affect the performance of investments.

Selling at the first sign of a downturn can prove particularly bad. Sharp falls in markets are often followed by sharp gains. While it may be tempting for investors fearing further losses to sell their investments, they potentially risk locking in losses and missing out on gains.

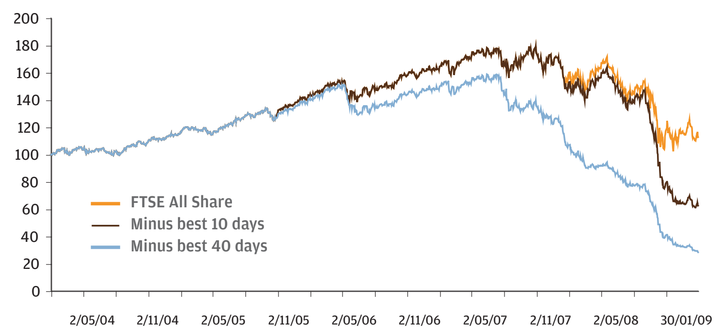
In for the long haul

The long-term performance of equities demonstrates that there is no need to time the markets; it's enough just to be in the markets. Research shows that investments made when the market has already begun to recover, and those made when it is still falling, have still paid attractive returns.

In contrast, waiting for a better time to invest can cost investors dearly. As the table illustrates, investors who remained fully invested in the UK market over the last five years would have received returns of 12.7%. In contrast, investors who missed out on the ten best days would have lost -37.5%, while those who missed the best 40 days would have lost -71.7%.

Many of the stock market's best days have come immediately after sharp falls.

FTSE All-Share performance over the past five years



Source: Datastream/JPMorgan. Returns from 30/01/04 to 31/01/09.

And this doesn't only apply to the UK market. The below table takes the example of other major markets, and shows the pitfalls of trying to time the markets and getting it wrong.

Returns over five years – effect of missing best days

Market	Index	Fully invested	Missing best 10 days	Missing best 40 days
UK	FTSE All Share	12.7%	-37.5%	-71.7%
US	S&P 500	24.2%	-57.5%	-78.2%
Global	MSCI World	11.3%	-46.6%	-71.7%

Source: Datastream/JPMorgan. Returns from 30/01/04 to 31/01/09.

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