

When the Bear Becomes a Bull

Be there for potential gains

Trying to out-guess the market — thinking you know which way the stock market is about to move and buying or selling accordingly — is called “market timing.” There’s no evidence anyone can time the market with precision.

No Time for Timing

Timing requires you to make two calls absolutely correctly: 1) You must sell when the market is high but likely to head lower. 2) You must buy when the market is low but likely to head higher.

You risk getting it wrong both times. Instead of selling at the top, you’re likely to sell only after prices have declined sharply. Instead of buying at the bottom, you’re likely to wait for absolute proof that the bull market has returned before purchasing more shares. In fact, many of the market’s sharpest gains come very early in a bull market.

If you’re one of the many investors who moved all your money from stocks to cash, you must now consider if that is still where you want your money to be.

Stick With Your Strategy

Forget timing. A better alternative is a well-thought-out asset allocation, based on your investment objectives, time horizon and risk tolerance. Stick with the mix of stock and bond funds and cash you decided on, making changes only as you draw closer to retirement and want to tame your risk. A reminder: Asset allocation can help you achieve diversification in your workplace retirement savings plan, but it doesn’t ensure a profit or protect against a loss in volatile markets.

Past performance is no guarantee of future returns, but historically stocks have offered the best hope of beating inflation. From 1926 through 2008, stock returns beat inflation by an average 6.42% a year. The inflation adjusted performance of bonds was an average annual 2.61%. Cash earned an average 0.68% a year after inflation.¹ You can lose purchasing power if your investments grow at a rate that’s less than inflation.

¹Ibbotson® SBBI® Classic Yearbook: Market Results for Stocks, Bonds, Bills, and Inflation, 1926–2008.

Performance measures: Stocks, S&P 500 Index; Bonds, Long-Term Government Bonds; Cash, 30-Day Treasury Bills; Inflation, Consumer Price Index for All Urban Consumers.