Commentary – April 1, 2016

The first quarter of 2016 started very badly for the stock market, with a drop of 11.3% from January 1st thru mid-month, the worst beginning for any new year since the days of the Great Depression. On January 20th, the Dow Jones Industrial Average was off 563 points at 1:00 PM. (WSJ January 21st 2016) An associate of mine works for an investment management firm which employs a service instructing its followers when to move in and out of the stock market. This particular market timing system was advising subscribers to liquidate stocks and hold cash, as the tremendous selling activity that day was a potent signal that the downward trend would continue, leading to additional losses.

January 20th was, in fact, the day the market reached its nadir (so far) for 2016. This low water mark was nearly tested soon thereafter, but since then the market has rebounded strongly, with the DJIA and S&P 500 Index finishing up 1.50% and .77%, respectively, for the first quarter. (NY Times April 1st, 2016)

Successful market timing requires two correct decisions: when to trade out, and when to trade back in. Guessing right once is a 50/50 proposition, twice drops the odds to 25%. Market timing can be intentional or unintentional. Some portfolio managers, investment advisors and market analysts engage in intentional market timing as a means to demonstrate their acumen and as justification for high fees. They tend to emphasize the times they correctly predicted a market crash, interest rate hike or other ephemeral event. What they often neglect to mention is their failure to repeat this feat on a consistent basis.

Unintentional market timing is practiced by ordinary investors who may not have conducted an assessment of their under-fire tolerance for risk and the fluctuations of the stock market. While this evaluation is not fool-proof, it Is a propitious place to start when determining what percentage, if any, of one's assets to invest in equities. People who are properly allocated tend to be less likely to capitulate in a correction. An investor selling on January 20th based on fears of a slowdown in China, falling oil prices or the rantings of a talking head on CNBC is an example of an unintentional market timer.

The "buy and hold" strategy is sometimes frowned upon as outdated in the current investment climate. Yet the majority of those who practice "buy and hold" are successful investors, while most market timers are not. I do not endorse intentional market timing and, based on recent events, can assert that none of our clients could be classified as unintentional market timers. For that they should be commended.

I invite and encourage clients to contact me with questions and/or concerns and am available to meet at your convenience.
