

Time in market vs. timing the market

With daily market fluctuations now commonplace, accurate market timing has become a near impossible task. Accordingly, today's investor should commit to a long-term investment strategy that addresses their individual goals.

MISSING THE MARKET

Jumping in and out of investments - or "market timing" does not work for most investors. Selling when the market moves down could mean missing periods when stocks recover. For example, the chart below shows returns of the S&P 500, a common measure of returns on large company stocks (large-caps). Money that had been fully invested in these stocks from Jan. 1, 1989, to Dec. 31, 1998, would have shown an average annual return of 16 percent. But investors who missed the 10 best days during the same time period would have lowered their return by more than four percent. Clearly, investors could pay heavy penalties for not being in the market for the best performing days.



*Chris Costello
& Kevin Conard*

BUSINESS COLUMNISTS

PERIOD OF INVESTMENT BEAR MARKETS

A bear market is usually defined as a stock price decline of at least 20 percent over an extended period of time and remains a true test for the long-term investor. Because it is nearly impossible to anticipate changes in the market over time, an investment portfolio should be properly positioned for constantly changing environments. Good investment strategies are designed to respond to market fluctuations.

During periods of high inflation, smart investors typically reduce their stock holdings and shift some of their money into bonds to take advantage of yields that may exceed stock returns. Despite these lower returns, it is wise for long-term investors to keep some portion of their assets in stocks to profit from recovery periods. Companies with solid long-term

growth strategies will most likely rebound after periods of decline and those investors who hold on should benefit.

BUYING ON THE DIPS

During a down market, it is sometimes hard for investors to avoid selling everything. But, for long-term investors, market declines should actually be viewed as buying opportunities.

The enduring bull market of the 1990s caused several stocks to reach record highs. Corrections often provide opportunities to buy these high-quality stocks at a reduced price. Although it's virtually impossible to buy at the lowest price every time, patient investors usually reap the benefits of a recovery by buying on the dips and holding on despite the possibility of further market decline.

CONCLUSION

Given the convincing evidence, a "buy and hold" strate-

gy appears to be the most profitable for the long-term investor. Despite the rational appeal of this approach, however, not all investors leave their money in a volatile market.

This disciplined strategy neglects to address the high level of emotion that often drives investment decisions. Even the most experienced investors may find it difficult to hold on during corrections as the value of their assets rapidly declines.

The important thing to remember is the long-term investor usually wins in the end. Although periods of decline in the market are inevitable, no one is capable of determining exactly when those periods will occur or when declining stocks will recover. Keys to successful long-term investing include setting strategic long-term goals and avoiding the temptation to sell simply because the market is down. Experienced investors are prepared for market fluctuations and will use periods of volatility to add to their long-term investment strategy.

Costello & Conard Wealth Planning Group Retirement Planning Consultants & Financial Advisors
PaineWebber, Inc.