FINANCIAL TIMES

# Department of non-sequitur

October 13, 2008 7:35 am

I agree with the basic point in this New York Times story – which is that it's pointless to try to time the market – but this argument hardly makes the case:

> *H. Nejat Seyhun, a professor of finance at the Ross School of Business at the University of Michigan, put together a study in 2005 for Towneley Capital Management, where he tested the long-term damage that investors could do to their portfolios if they missed out on the small percentage of days when the stock market experienced big gains.*
>
> *From 1963 to 2004, the index of American stocks he tested gained 10.84 percent annually in a geometric average, which avoided overstating the true performance. For people who missed the 90 biggest-gaining days in that period, however, the annual return fell to just 3.2 percent. Less than 1 percent of the trading days accounted for 96 percent of the market gains.*
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> *This fall, Javier Estrada, a professor of finance at IESE Business School in Barcelona, published a similar study in The Journal of Investing that looked at equity markets in 15 nations, including the United States. A portfolio belonging to an investor who missed the 10 best days over several decades across all of those markets would end up, on average, with about half the balance of someone who sat tight throughout.*

It's not that Seyhun and Estrada are wrong. I'm sure they're not. On a wonderful day the stock market can gain 4-5 per cent, sometimes even more. Of COURSE it will cost you money to miss ten such days.

But I could equally make the opposite case by observing how much money you would save by being out of the market on the worst days. I mean, there was the 1987 crash – about 25 per cent. There have been several days of losses in excess of 5 per cent in the past few weeks. Just imagine how much better off you'd been if you had missed the ten worst days of the market…

By the way, I'm all in favour of buy and hold, but this is a silly argument even though the conclusion is correct.

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