Dynamic Wealth Advisors

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The Dangers of Timing the Market

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Recent Market Activity: Inflation Surprises, Fed Hikes Rates, Markets Fall

- **August 13:** The Consumer Price Index (CPI), the primary measure of inflation, had a surprise increase of 0.1% for August and 8.3% over the past year while economists were expecting a drop from previous periods. The stock market (as measured by the S&P 500) had an aggressive 4.32% drop from fear of increased rate hikes.

- **August 21:** The Federal Reserve (Fed) increased interest rates by 0.75% for the third consecutive time to an overall rate of 3-3.25%, the highest level since the financial crisis. Additionally, they forecasted reaching 4.6% in 2023, in an effort to curb persistent inflation.

- **August 20-27:** As of this writing, the stock market has fallen for six consecutive days, totaling a cumulative drop of close to 6.5%. The S&P 500 has hit a new 2022 low, down close to 23% on the year. The bond market (as measured by Bloomberg U.S. Aggregate Bond) has had similar weakness, down close to 15% on the year.

- **Looking Ahead:** As we enter Q4, there are a few reasons to be optimistic:
  - A lot of the negative news and expectations have already been priced into the market; any subsequent improvements in data or expectations may have a strong positive reaction.
  - The bond market is finally producing attractive yields, with the two-year Treasury bond yielding more than 4.3%. This is supportive of increased expected returns for the bond market going forward.
  - The fourth quarter generally has strong cyclicality and market strength, and we enter the holiday season with increased consumer spending and a boost to corporate profits.
  - Removed political uncertainty post mid-term elections tends to be a benefit for the market.
  - There are signs that inflation may be coming down, which could lead to positive surprises from the Fed and provide strong market tailwinds. Two primary components of CPI appear to be cooling:
    - **Shelter:** Home pries cooled in July at the fastest rate in the history of the S&P CoreLogic Case-Shiller Index in the face of rising interest rates.
    - **Energy:** Oil prices are below $80 for the first time since mid-January; they were close to $100 at the start of August and more than $120 at the start of June. This has already started to reflect in gasoline prices as the national average as of September 27 has fallen to $3.75, compared with approximately $5.00 in early June.

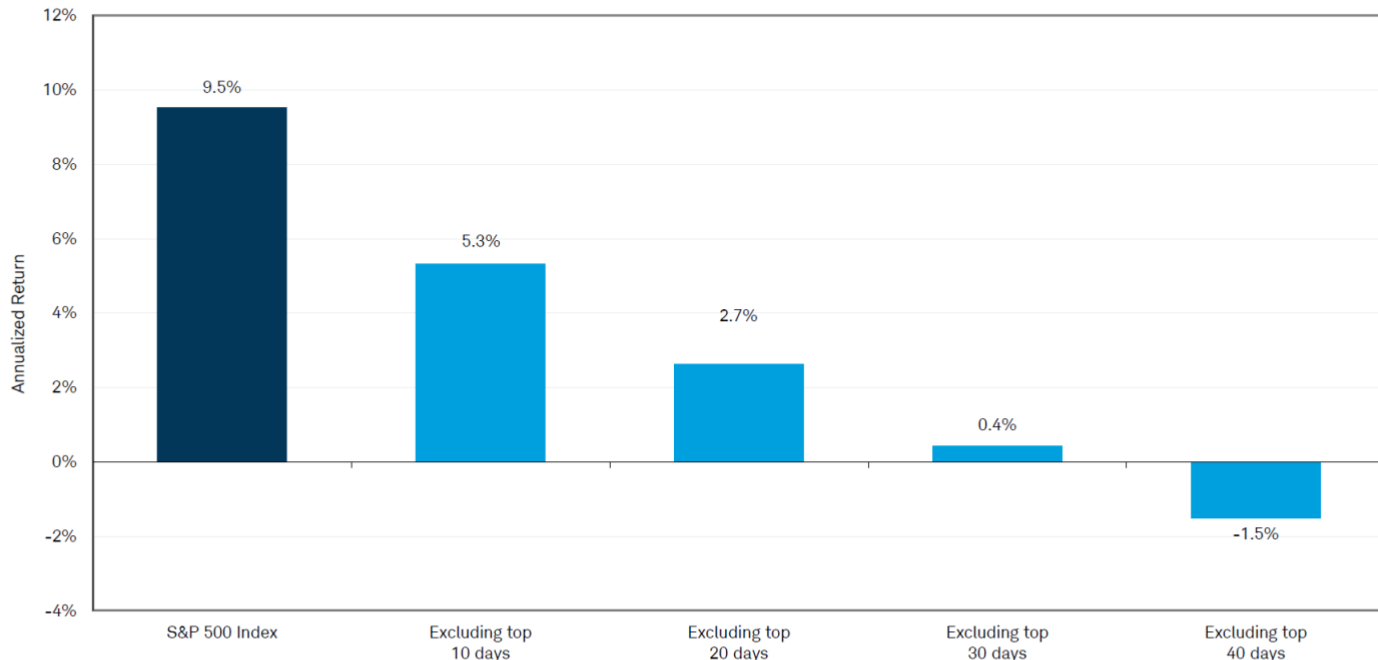
What can happen if you try to time the market during a correction?

Timing the market is hard. Primarily, because you have to get it right twice! Once on the way out,

and again on the way in. It's hard enough to get one of those right, but the probability of getting them both right is not in favor of the investor. As we saw post the COVID crash of 2020, the market can have a very quick snap back. If you miss out on any of that rebound, you could be locking in the losses and deteriorating your long-term returns, which could be a detriment to your life-long investment goals. The chart below, "Time 'In the Market' is More Important than 'Timing the Market,'" shows the potential impact of not being invested in the market for various periods of time:

<u>Time "In the Market" Is More Important than "Timing the Market"</u>

Annualized Return S&P 500 Index (Total return)
2002-2021



Source: Charles Schwab Quarterly Chartbook Q3 2022. Bloomberg as of 12/31/2021. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no guarantee of future results.

To summarize the chart:

- If you stay invested for the entire 20-year period, your return is close to 10% per year.
- If you tried to time the market and missed out on the 10 best days, the annual return was almost cut in half.
- If you missed about a month of top days (30), you essentially returned nothing.
- The most interesting—and most difficult to overcome—concept around market timing is that the best days often happen within weeks, or even days, of the worst days.

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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