Committee Perspectives

An Ameriprise Global Asset Allocation Committee publication

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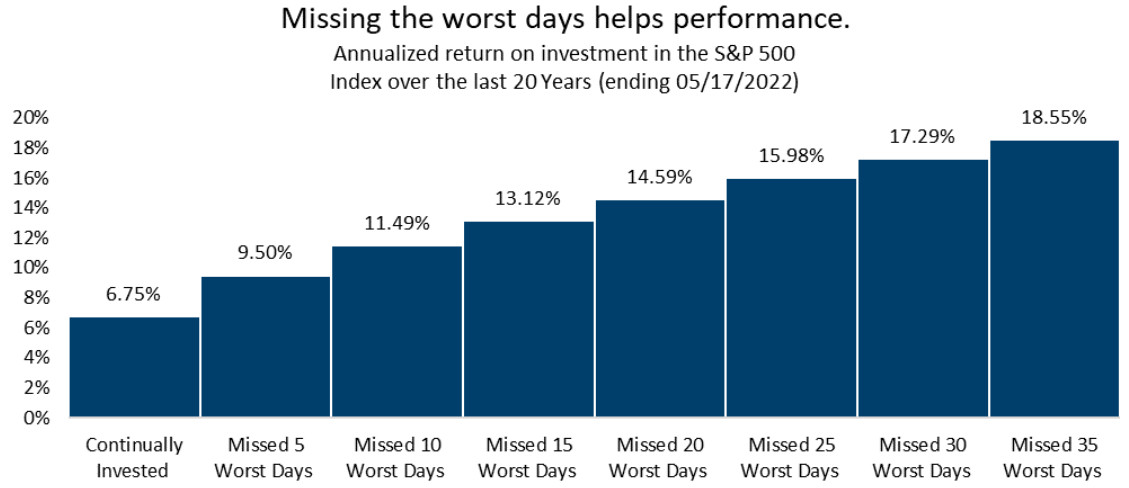
How good is your aim?

Key Takeaways

- Successfully timing the market is all-but-impossible
- The biggest up and down days in the market tend to occur within days of each other
- In our opinion the best course is to keep focused on your long-term investment plan

The tug-of-war between the bulls and the bears has left investors anxious about what happens next. On the plus side, we have glimmers of hope that the consumer is both strong enough to weather the inflation storm, and willing to do so. On the minus side we have bearish price action in both stocks and bonds, war in Ukraine, shutdowns in China, and a Federal Reserve committed to tamping down inflation.

In conditions like these it is tempting to scrap long-term investment plans in favor of "sitting it out" and waiting until more favorable conditions exist. In our experience, and according to studies from Morningstar and DALBAR (amongst others) timing the market often leads to poorer outcomes over time. Those tempted to sit out of the market may point to illustrations like the one below to justify their decision. This chart is often used to suggest that by missing the worst days in the markets you do much better than if you remained fully invested. While this is true, we think this misses the point – it assumes that you can surgically avoid the very worst that the market has to offer but fully participate otherwise.



Source: Bloomberg, Standard and Poor's, American Enterprise Investment Services, Inc.. Returns assume investor was fully and continually invested in the S&P 500 Price Return Index except for the days specified. Calculations assume no fees or transaction costs. Past performance is not a guarantee of future results.

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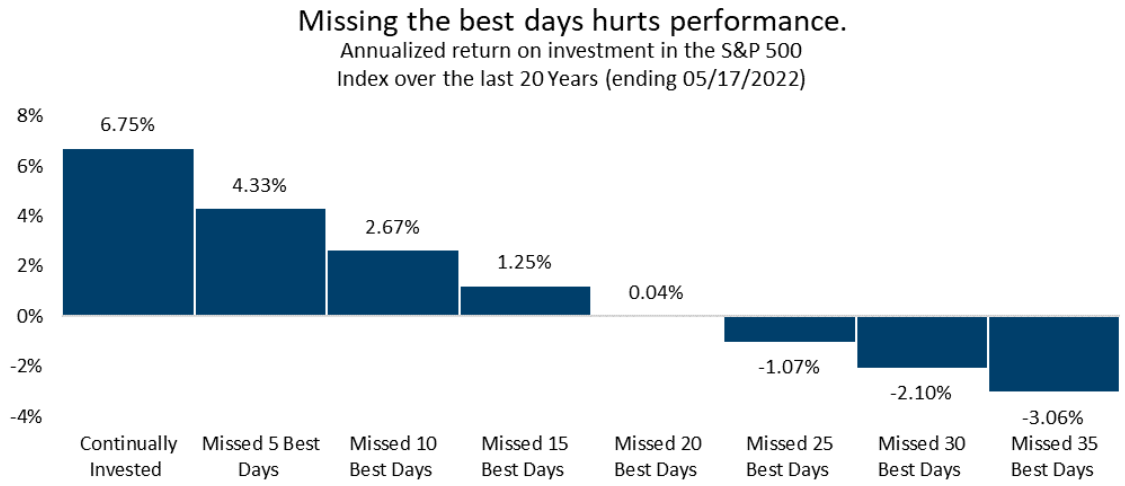
If you turn the study on the prior page around and look at missing the best days of the market, as illustrated below, you will see the other side of the coin. If you were fully invested over the last twenty years, but through poor timing you missed each of the best 21 market days over this period, you would have lost money on a price basis (before transaction costs). The other 5,039 trading days would have been a push.



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This second chart is really no better than the first, in our opinion, and either could lead to taking action that brings you further away from your goal rather than closer to it. In isolation, the first chart may suggest fleeing the markets at the first hint of trouble, while the second chart possibly suggests that investing is futile (if you miss the best 21 days, you are out of luck).

Herein lies the challenge. The theoretical and the actionable aren't always the same. The outcomes described in the charts are mathematically true but timing the market with such laser precision is **all-but-impossible** in practice (and if we could, we would all be retired in luxury).

Consider then this extra information that may counterbalance the temptations laid out above.

- To the first chart: Significant up and down days tend to clump together. Seven of the ten biggest up days over the last twenty years came within ten trading days of the biggest down days (the remaining three days consist of two days during the initial stages of recovery from the Global Financial Crisis and one from the Covid-19 recovery that occurred 21 days after a big down market). *Chances are that anyone jumping out of the market at the first hint of trouble likely didn't get back in to experience the big up days. And as we saw, the big up days were pivotal to overall performance.*

- To the second chart: Over the last twenty years, the S&P 500 has, on average, compounded at .026% daily (on a price return basis), and even more when accounting for dividends paid. While this may not seem like much, it totals a 269% gain (again before dividends). This is despite the fits and starts of the markets, despite the tech crash, despite the great recession, despite the trade war with China, despite COVID-19, despite the war in Ukraine, and despite the recent inflation pressures.

Market timing is hard. In our opinion, the best course is to keep invested at a level that provides comfort and confidence that you can tolerate riding through the chop.

Global Asset Allocation Committee

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