CHIEF INVESTMENT OFFICE

Investment Insights

Time In The Market Is Still Much More Important Than Timing The Market

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All data, projections and opinions are as of the date of this report and subject to change.

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With all the debate about short- versus longer- term views for the Equity market following the 100% price return for the S&P 500 from the March 2020 lows, we think it's a good time for a reminder about the perils of market timing. We have long said that it was discipline in portfolio construction that got us through the pandemic-led crisis of 2020—not market timing. The latter is a fool's errand and can be costly. Indeed missing the 10 best days in the market each decade can be painful. In Exhibit 1, we look at the S&P 500 back to 1930 and find that missing the 10 best days of each decade would have meant a return of just 60%, instead of 22,120% if you had stayed invested through all the ups and downs of the market. Also, the probability of loss over a full decade of investing is just 6%. If we zoom in and look at market returns since January 1, 2020, missing the 10 best days would result in a negative return of –16%, compared to a price return of 50% by simply remaining invested—despite the sharp bear market decline of February/March 2020. Investors who lengthen their time horizons also have historically experienced lower average equity return volatility.

CIO VIEWS

Because of the potential opportunity cost of timing the market, we prefer to rely on a disciplined approach to asset allocation, based on each individual's financial goals, liquidity needs, risk tolerance and time horizon, and diversification to help weather periods of uncertainty.

Exhibit 1: S&P 500 Returns Over The Decades.

Decade	Price return	Excluding Best 10 Days per Decade
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	18%	-20%
1980	228%	109%
1990	316%	186%
2000	-24%	-62%
2010	190%	95%
2020 – 2021	50%	-16%
1930 – 2021	**22,120%**	**60%**

Source: BofA Global Research; Chief Investment Office. Data as of December 31, 2021. **Past performance is no guarantee of future results. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Please see glossary and index definitions at the end of this report.**

One reason for the dramatically different investment outcomes is that, generally, the best days in the market often follow the worst, and recent history was no exception. The S&P 500 fell 9.5% on March 12, 2020, but quickly rebounded the next day, gaining 9.3%. Hence, the difficulty in engaging in market timing.

Instead of considering market timing-based investment decisions, we prefer to rely on a disciplined approach to asset allocation, based on each individual investor's goals, time horizon, liquidity needs and risk tolerance and diversification to help weather periods of uncertainty. Ultimately it's our view that fundamentals like profits, policy (monetary and fiscal), and identifying where we are in the business cycle that will determine the direction of asset prices, and short term periods of volatility or market pullbacks are a part of investing. At the end of the day, it's time spent in the market that is rewarded, not timing the market.

Glossary of Terms

Price Return is the rate of return on an investment portfolio, where the return measure takes into account only the capital appreciation of the portfolio, while the income generated by the assets in the portfolio, in the form of interest and dividends, is ignored.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index.

S&P 500—The S&P 500 Index, widely regarded as the best single gauge of the U.S. equities market, includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

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