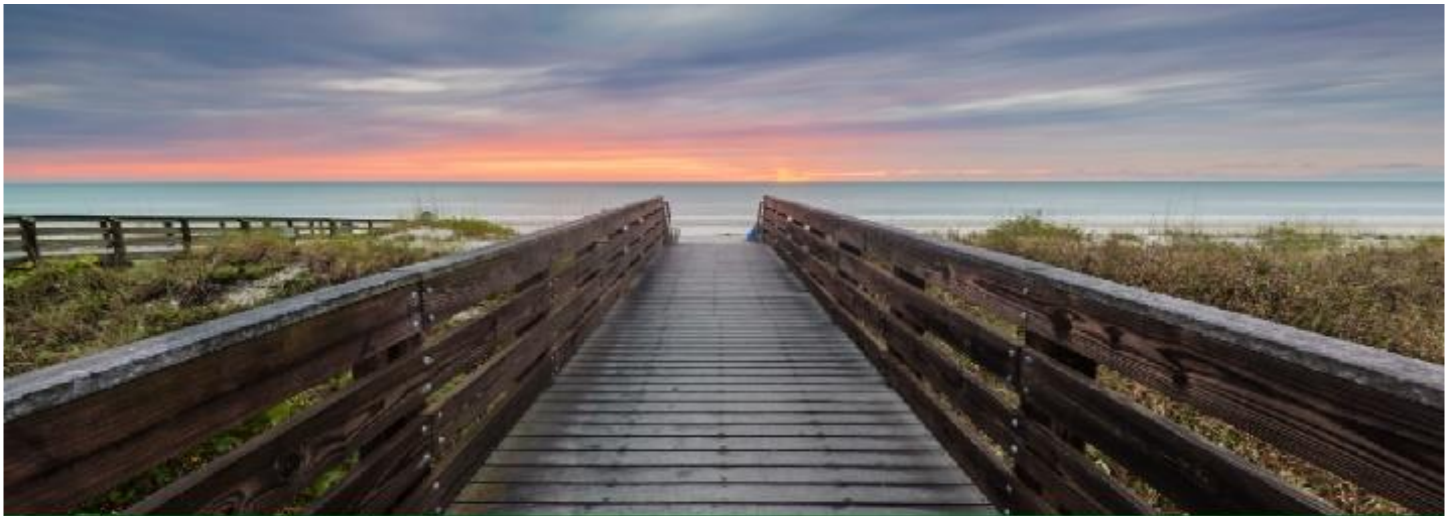

Timing the Market versus Time in the Market

"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February." -Mark Twain

Mark Twain's market commentary was written in the month of October, but it works equally well in May. He strikes a clever – and even comical - chord, yet he underscores a very frustrating reality. He claims that speculating in stocks is "peculiarly dangerous," but he offers no remedy for this problem. This leads to the inevitable question: "Is there a right time to buy stocks?"

To answer this question, we must first distinguish between *speculating* and *investing*. Twain specifically refers to speculating in stocks, that is, buying a specific stock based on an educated (or possibly uneducated) guess as to the short-term future value of that stock. The problem with speculating is that stock markets are notoriously difficult to predict in the short-term, so speculating is indeed very dangerous and is actually tantamount to gambling.

However, investing, while still carrying some level of risk, is very different from speculating. Investing involves buying stocks with a long-term outlook. Unlike speculators, investors should not be concerned with the unpredictable short-term gyrations of the markets. Instead, investors focus on the power of capitalism to generate wealth over a number of years; an outcome which is far more reliable and predictable.

We agree with Twain's advice for speculators; trying to outguess the market in the short-term is a dangerous and foolish game, and there is no "right time" to play games with your money. But for investors the opposite is true. If your view of the equity market is measured in years or decades rather than in days or weeks, **any time is the right time to buy a well-diversified basket of stocks** because the expected growth in stock prices over a long time frame makes the exact purchase date relatively unimportant.

As with most valuable investment lessons, an analogy may help to illustrate this point. Alan Abelson, a well-known market commentator, describes it this way: "Do you know what investing for the long run but listening to market news everyday is like? It's like a man walking up a big hill with a yo-yo and keeping his eyes fixed on the yo-yo instead of the hill." If you are watching the yo-yo, the exact timing determines whether you catch a rise or a fall, but if you are focused on the hill, the

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rise is assured and the timing is irrelevant. The trick to understanding the stock market is to focus on the hill, not on the yo-yo.

Keeping your focus on the "hill" may be a simple concept, but it is not emotionally easy to implement. As markets rose to new all-time highs at the end of 2016 and beyond, many "investors" did not want to buy stocks because they thought we must be due for a fall in stock prices. There are two problems with this view. First, *markets being at or near all-time highs is the normal state of affairs.* According to data from Dimensional Fund Advisors, over the past 90 years, one out of every three months marked an all-time high in stock markets, and the subsequent market return after these record levels tended to be higher than average.

The second problem is that, when the inevitable market pullbacks do occur, many of the same folks who were eagerly awaiting a lower entry point are suddenly hesitant to buy because the financial news has become frightening. They rapidly move from not wanting to buy after a run of great news to not wanting to buy after a run of bad news. The desire to find the perfect entry point leaves them emotionally and financially paralyzed.

Recently, one of our clients commented that our articles in *The Light* do not often address "current market conditions." This is a prescient observation. While we are keenly aware of current market conditions, we are also keenly aware that there is no "condition" of the market that remains "current" for long. Because markets are constantly changing, we focus on advice that applies in any market environment and which helps investors maximize the probability of long-term wealth creation. Our advice about when to buy a diversified basket of stocks is no exception: If you believe in the virtue and durability of capitalism, any time is the right time.

Heritage Investment Group provides wealth management and investment guidance to high-net-worth individuals, families, charitable foundations and qualified plans. We provide seasoned financial guidance, with respect and integrity, backed by a disciplined investment process. Since 1993 we've built our firm on a strong foundation of family and friendships with guiding principles of ethics and integrity.

The original version of this article was written by Heritage for the May/June 2017 edition of The Light, a local magazine serving Broward County, Florida.

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