

BEHAVIORAL & FINANCIAL INSIGHTS

The Temptation to Time the Market

Why is it that many investors feel the urge to time the stock market? Since 1950, stocks have been in a bull market 83% of the time – despite all the crises and corrections.¹ You would think investors would be happy with that kind of result. However, investors tend to spend a lot of time and energy attempting to avoid losses, which ironically, leads to lower long-term performance.

The Price you Pay

Morningstar recently released their annual *Mind the Gap* report, which compares investor performance with the underlying investments. They found that over the last 10 years investors underperformed the very funds they were invested in by an average of almost 2% per year!² This finding is not unique as it confirms what Vanguard also found.³

This underperformance is largely attributed to the timing of purchases and sales of securities. Investors are tempted to buy after things go up (chasing what is hot) and to sell after experiencing losses as they attempt to “get to safety.” But with a market that is historically positive most of the time, why do we feel the urge to try to time it?

Your Brain is to Blame

Our desire to avoid all losses, even losses that may be temporary, is driven by the way we are hardwired. Our brains are sensitive to financial loss because they are viewed as a threat. They threaten our comfort and potentially our livelihood. And what does the brain do with a threat? It seeks to avoid and eliminate it. Therefore, the urge to time the market is completely normal and natural. But that doesn’t mean it is either wise or beneficial.

Investors may wish to exert greater control over any such urges so they can make better investment decisions. It sounds simple, yet it’s difficult! You need to be disciplined, and have almost superhuman willpower to overcome these basic urges. That said, we’ve identified two ways to make it easier to control any such urges to time the market:

1. Don’t watch the markets. If you don’t look, the urges lose their ability to control your emotions.
2. Talk with us – that is what we’re here for. Timely perspectives can help investors remain grounded and ensure decisions are both sound and in line with well-constructed plans.

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1. Callie Cox, eToro, tweeted data on June 12, 2023 found at https://twitter.com/callieabost/status/1668360824593809410?utm_source=substack&utm_medium=email

2. Morningstar, *Mind the Gap*, July 31, 2023

3. Vanguard, *Advisor’s Alpha*, July 2022