Signs you're trying to time the market

Investment Strategy Team

Everyone wants to be in the right place at the right time, but that's easier said than done — especially when it comes to your investments. The strategies that put you in the right place at the right time may be different from what you expect. While market timing can be tempting, it's rarely successful.

Do you think it makes sense to move to the sidelines when stocks are predicted to drop?

Are you waiting for some of today's uncertainties to be resolved before you invest?

Have you ever given up on an underperforming quality investment and moved the money into one that's performed better?

If you answered **yes** to any of these questions, you may actually be trying to time the market.

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You may think you're just being cautious or strategic — like switching lanes at the grocery store to try to get through the line faster. However, three of the most common investment mistakes are keeping money on the sidelines, reacting to market predictions and switching investments based on past performance. These actions could lead to undesirable outcomes:

- Missing some of the best days in the market
- Receiving lower returns because you're not invested
- Switching to investments that underperform rather than outperform

Many attempts to time the market end up reducing investor returns rather than raising them. Instead of trying to time the market to reach your long-term financial goals faster, consider three alternative actions:

1. Determine an appropriate mix of stocks and bonds for you.
2. Stay invested, even when markets are choppy.
3. Rebalance your portfolio as needed — which could mean buying investments that have declined in value.

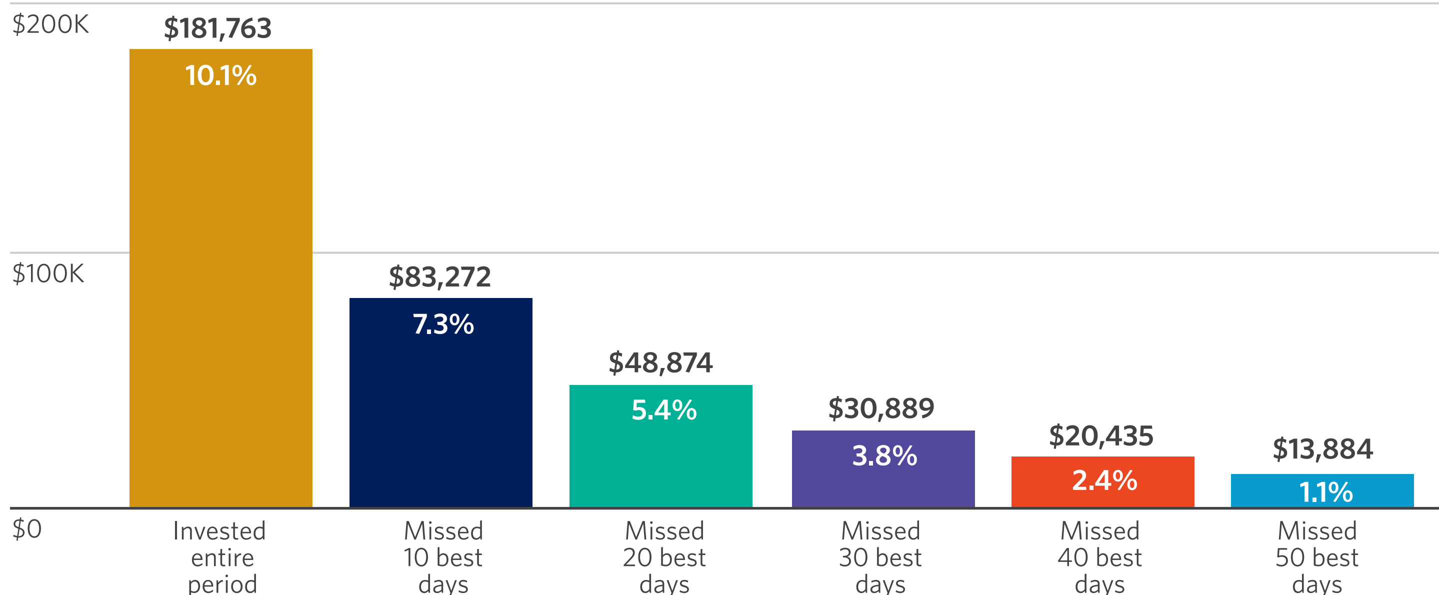
What if the prediction is correct?

Stocks have dropped by 10% or more on average about once a year. But staying invested — despite the high volatility of past decades — averaged attractive returns of 10.1% per year.

Market emotions have always swung quickly from fear to greed, resulting in some of the best days for the market. As the following chart illustrates, the impact of missing just a few of the market's best days over the past 30 years was bigger than you might think.

Market timing doesn't work

Value of a $10,000 investment in the S&P 500



Source: Morningstar Direct and Edward Jones. 12/31/1993–12/31/2023. Calculations do not include commissions or transaction fees an investor may incur. If fees were included, it would have a negative impact on the return. The S&P 500 is unmanaged and not available for direct investment. Past performance does not ensure future results.

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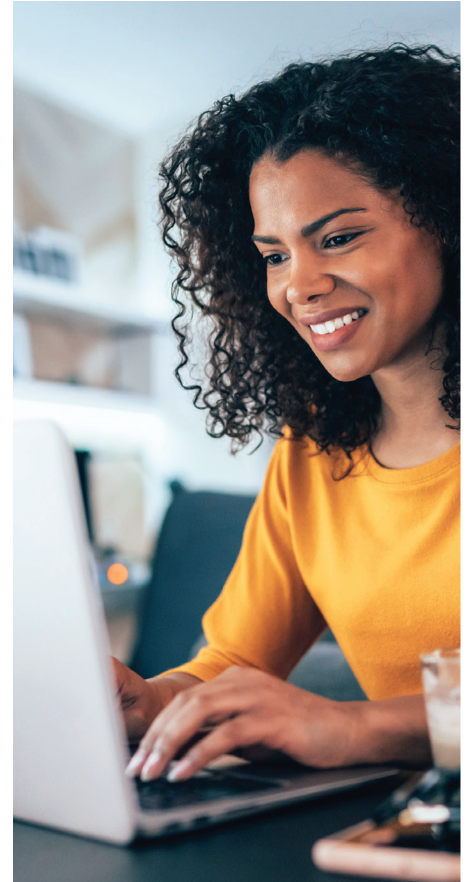
Don't react to predictions

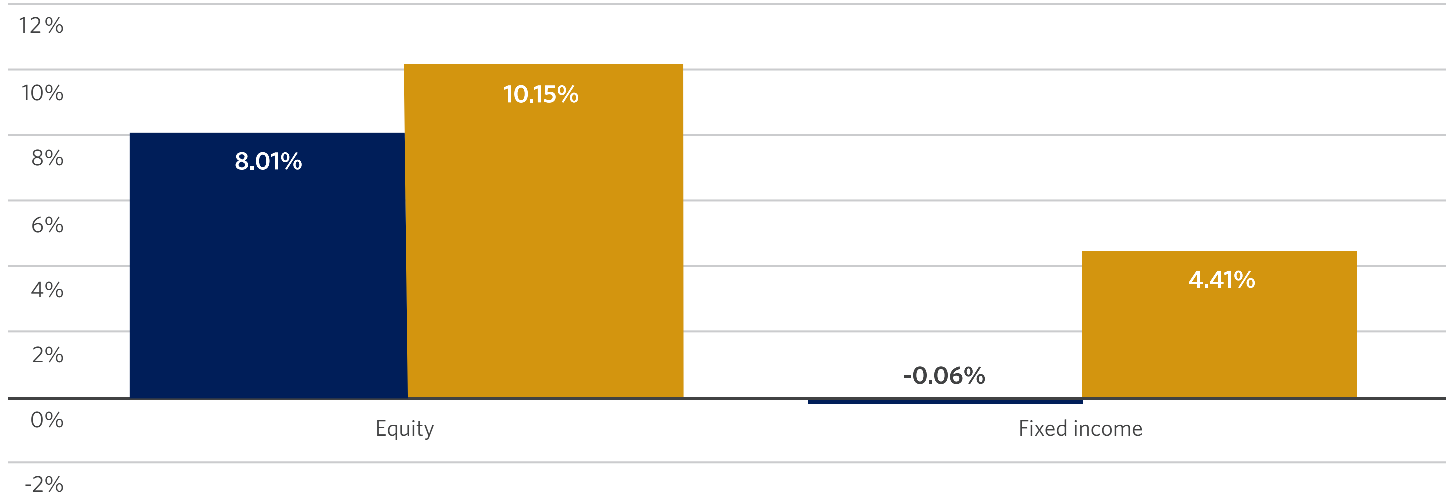
If you hear predictions that stocks could drop, would you want to sell to avoid a possible loss? While this might seem like a foolproof move, consider the possibilities:

- **What if the predictions are wrong?** If stocks rise instead of falling as predicted, you're not invested, possibly missing gains. Your return potential may suffer immediately and over time.
- **What if the decline is small and/or brief?** Staying invested may result in better returns over time and be less costly.
- **If you sell now and miss a decline, when do you reinvest?** If you fail to reinvest, you could miss a rebound. To sell and then buy back means you have to make two correct timing decisions, which is doubly difficult.

Research has shown that average investors have underperformed the broader stock and bond markets due to chasing performance. Over the past 30 years, the stock benchmark's annualized return was 10.15%, but the average investor earned only 8.01%. The bond performance gap was even wider, with an annual 4.41% benchmark return compared to investors' -0.06% return.



Investor returns vs. benchmarks over 30 years



Source: "Quantitative Analysis of Investor Behavior, 2024," DALBAR, Inc. Annualized return for the past 30 years ending 12/31/2023. Equity benchmark represented by S&P 500. Fixed-income benchmark represented by Bloomberg Aggregate Bond Index. Returns do not subtract commissions or fees. Study conducted by independent third party, DALBAR, Inc. A research firm specializing in financial services, DALBAR is not associated with Edward Jones. An index is unmanaged and is not available for direct investment. Past performance is not a guarantee of future results.

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The risk of sitting on the sidelines

Despite the uncertainties in the market, the right approach hasn't been to stay on the sidelines. As the chart on Page 2 illustrates, over the past 30 years, if you chose to get out of the market and missed just 10 of the best days, your return could have been significantly lower. Furthermore, the more of the best days you miss, the lower your return could be.

More important, keep in mind that market volatility is just one risk. Inflation, interest rates and unexpected life events are other risks to factor into your investment strategy. A long-term strategy that addresses all your financial goals can help reduce those worries as well as some of the risks.

How we can help

At Edward Jones, our investment principles — owning quality investments, taking a long-term perspective and staying diversified — can help you reduce investment risks and may help improve your chances of success.

Making the right moves

Knowing the right investment moves can help turn risks into opportunities. But the wrong moves at the wrong times can be risky and reduce your chances of success.

If you've been trying to time the market — no doubt without much success — we think there's a better way. Work with your Edward Jones financial advisor to develop a strategy designed to help you avoid such reactions, reach your long-term goals and feel more comfortable and prepared for the future.

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