SERVO
PRIVATE WEALTH

Multi-Asset Investments – Monthly Views

The £19k cost of trying to time the market

"Buy low, sell high" – that's every investor's goal. However, it's easier said than done. Especially if you're trying to time the market, which is notoriously difficult, if not impossible.

It can also be costly. Our research shows just how costly it can be when you get the timing wrong.

Over three decades, mistimed decisions on an investment of just £1,000 could have cost you more than £19,000-worth of returns.

Our research examined the performance of three indices that reflect the performance of the UK stock market – the FTSE 100, the FTSE 250 and the FTSE All-Share.

If at the beginning of 1989 you had invested £1,000 in the FTSE 250 and left the investment alone for the next 30 years it might have been worth £26,831 by the end of 2019. (Bear in mind, of course, that past performance is no guarantee of future returns).

However, if you had tried to time your entry in and out of the market during that period and missed out on the index's 30 best days the same investment might now be worth £7,543, or £19,288 less, not adjusted for the effect of charges or inflation.

Over the last 30 years you could have made:

11.6%	per year if you stayed invested the whole time
9.6%	per year if you missed the 10 best days
8.2%	per year if you missed the 20 best days
7.0%	per year if you missed the 30 best days

The 2% difference to annual returns between being invested the whole time and missing the 10 best days doesn't seem much but the compounding effect builds up over time, as shown in the table below. If you had invested in the FTSE 250 it could have cost you more than £11,000 during that time.

What a £1,000 investment in 1989 could be worth now

	Invested the whole time	Less 10 best days	Less 20 best days	Less 30 best days
FTSE 100	£13,485	£6,947	£4,400	£2,958
FTSE 250	£26,831	£15,713	£10,665	£7,543
FTSE All-Share	£14,016	£7,496	£4,885	£3,378

Please remember that past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.
Source: Schroders. Refinitive data correct as at 15 Jan 2020. Data is for all indexes displayed is for total returns, which includes price change and dividends.

When observing returns over long periods, investors should also bear in mind that markets can be volatile, with many fluctuations up and down during the timespan.

Nick Kirrage, a fund manager on the Schroders value investing team, said: "You would have been a pretty unlucky investor to have missed the 30 best days in 30 years of investing, but the figures make a point: trying to time the market can be very, very costly.

"As investors we are often too emotional about the decisions we make: when markets dive, too many investors panic and sell; when shares have had a good spell, too many investors go on a buying spree.

"At times over the last three decades you would have to have nerves of steel as an investor.

"They have included some monumental stock market crashes including Black Monday in 1987, the bursting of the dotcom bubble at the turn of millennium and the financial crisis in 2008, to name but three.

"The irony is that historically many of the stock market's best periods have tended to follow some of the worst days.

"It's important to have a plan of how long you plan to stay invested, with that plan matching the goals of what you're trying to achieve, be it money for retirement or your children's university education. Then it's just a matter of sticking to it - don't let unchecked emotions derail your plans."

Speak to an independent financial adviser if you are unsure as to the suitability of your investment.

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