Sometimes doing nothing is doing something

Time in the market or timing the market

April 2020

Thomas Robert Dewar, a Scottish whisky distiller from the 1800s, coined the phrase 'sometimes doing nothing is doing something'. While Mr Dewar was referring to the whisky ageing process where the unique flavour is developed, the phrase also applies to investments.

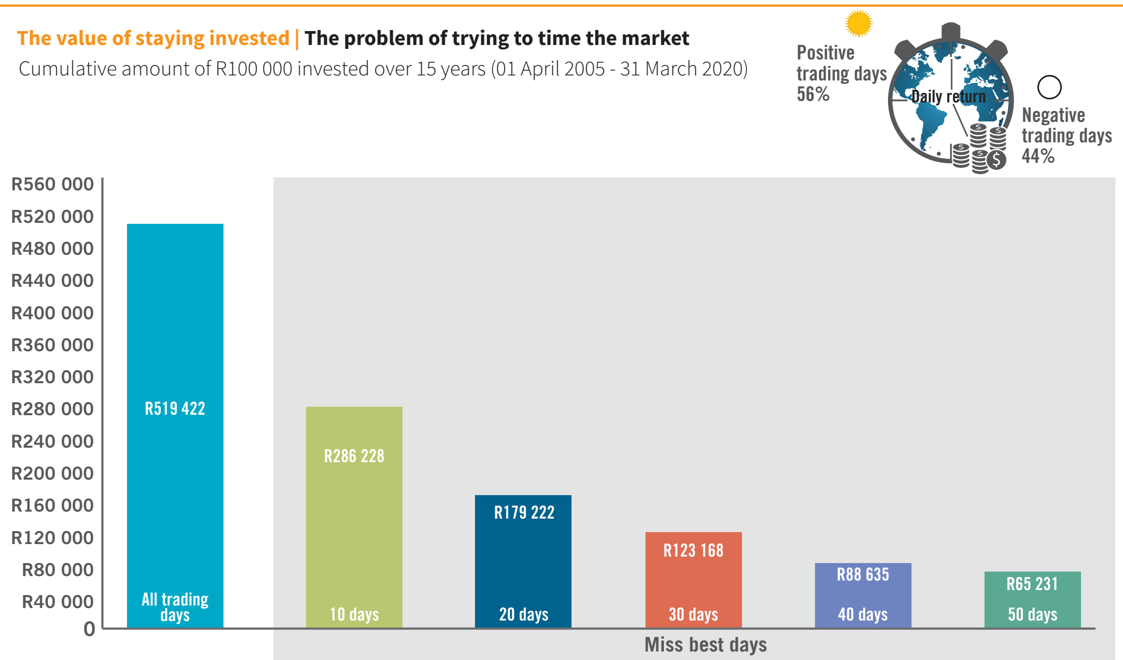
Investors' emotions see-saw when markets go down. Their emotions could drive impulsive investment decisions that ultimately, like the event that sparked them, end in undesirable outcomes. When markets crash, feelings of doubt and uncertainty intensify, and investors scramble to protect their hard-earned savings. This is when you see investors rushing to cash in their investments or to change their investment strategies – cash being the preferred destination.

But what if their actions are mis-timed, or market conditions improve and investors unintentionally miss one, two or ten of the best days in the market? What impact would this have on their investment over time? Historically, we've seen the markets recover significantly following drastic downturns. They often go on to post inflation-beating performance returns.

Let's use an example. The chart below is based on the South African stock market, represented by the FTSE/JSE All Share Index from 1 April 2005 to 31 March 2020. It shows the impact on investments when investors try to time the market and, in the process, miss some of the market's best performing days.

The value of staying invested | The problem of trying to time the market

Cumulative amount of R100 000 invested over 15 years (01 April 2005 - 31 March 2020)



Source: Alexander Forbes Investments and Bloomberg

Investor 1 kept her money invested for the entire 15-year period. The R100 000 she invested grew to R519 422.

Investor 2 missed the 10 best trading days in the market in the 15 years analysed. The R100 000 he invested ten years ago only grew to R286 228.

Investor 1's investment grew to almost double of what Investor 2's investment grew to. This is because Investor 2 missed the 10 best trading days by either trying to time the market or being out of the market completely.

Even more extraordinary is that if Investor 2 had missed the 40 best days in the market, his investment would only be worth R88 635 – less than the amount (R100 000) he invested 15 years ago. It goes to show that time spent invested in the market is much more important than timing the market.

The moral of this investment story is much the same as Mr Dewar's philosophy for making whisky. Changing an investment strategy that is designed with the long term in mind because of short-term volatility often ends in missed opportunities or even losses. If you stick to your long-term investment plan and do nothing when others are prematurely opening the proverbial cask of whisky, your retirement years could very well be spent savouring a perfectly matured single malt.

Company registration number: 1997/000595/06. **Pension Fund Administrator number:** 24/217. **Insurer number:** 10/10/1/155. **Postal address:** PO Box 786055, Sandton 2146.
Physical address: 115 West Street, Sandown 2196. **Telephone number:** +27 (0) 11 505 6000.

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