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## **Market-timing systems are unlikely to give you an edge**

INVESTORS ARE PROBABLY BETTER OFF USING A BUY-AND-HOLD STRATEGY FOR STOCKS

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**Morningstar.com**

I will never understand why some people insist in making investing more complicated than it is. All this talk of resistance levels, market internals and descending flags drives me nuts -- but none of it makes me as annoyed as suggestions that market timing is consistently feasible.

Folks, this is one of the all time great myths of investing. There is no strategy that consistently tells you when to be in the market and when to be out of it. None. Anyone who tells you otherwise has something to sell you -- usually a market-timing service.

Don't believe me? Listen to someone who's been around the block a lot longer than I have -- Vanguard's Jack Bogle: "After nearly 50 years in this business, I do not know of anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who has done it successfully and consistently."

Now, the timers out there are saying to themselves, "Yeah, but Bogle is Mr. Index Funds -- he has a vested interest in a buy-and-hold strategy!" Well, not necessarily -- after all, a lot of market timers use modified index funds from shops like Rydex and ProFunds to do their little dances in and out of the market. Bogle is, however, a big fan of controlling what you can (costs and taxes) and not worrying about what you can't control (how the market will do from month to month or year to year).

Another question: If the systems being touted are so darn good, why are the creators wasting their time trying to get a few hundred bucks in subscriptions here and there from easy marks, rather than leveraging themselves to the hilt based on their own signals?

If you still think the stock market can be timed, consider the following:

An interesting piece in the February 2001 issue of Financial Analysts' Journal studied the difference between buy-and-hold and market-timing strategies from 1926 through 1999 using a very elegant method. Without getting into the details, what the authors did was to essentially map all the possible market-timing variations between 1926 and 1999, with different switching frequencies.

They assumed that for any given month, an investor could either be in T-bills or in stocks, and then calculated the returns that would have resulted from all the possible combinations of those switches. (There are 4,096 possible combinations between two assets over 12 months.) Then they compared the results of a buy-and-hold strategy with all the possible market-timing strategies to see what percentage of the timing combinations produced a return greater than simply buying and holding.

About one-third of the possible monthly market-timing combinations beat the buy-and-hold strategy. When the authors looked at quarterly switching over five-year periods, the results got even worse for the timers: Only one-fourth of the timing strategies beat buy-and-hold strategies. Annual results were even more grim: One-fifth of annual timing strategies beat buy-and-hold strategies.

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