Market Timing Doesn't Work

Charles Schwab Chief Investment Strategist LIZ ANN SONDERS discusses the dangers of market timing.

"Attempting to forecast whether the market is at a peak or in a valley—and whether to buy or unload stocks as a result—is a waste of time. I don't know anyone who has been right more than once in a row." —Legendary investor Peter Lynch

"After nearly 50 years in the business, I do not know of anybody who has done it [market timing] successfully and consistently. I do not even know anybody who knows anybody who has done it successfully and consistently."
—Legendary investor John Bogle

The future is unpredictable. As investors, we know this intellectually. But do we heed it emotionally? Not often enough. There's something in the investing world known as **hindsight bias**. It's the belief that we can logically forecast future events based on the data we have received and studied in the past. That's why much research on Wall Street concentrates on what's happened historically to guide market-timing decisions in the future. Investors desperately want to believe they can time the markets, but the statistics tell an entirely different story.

A futile practice

Market timing is a more common term for **tactical asset allocation**. This short-term approach to asset allocation is typically employed to anticipate and/or respond to significant shifts in asset prices. But as Peter Lynch inferred, in order to time the market successfully, the investor needs to be right at least twice in a row (i.e. timing getting in and getting out correctly).

This is particularly difficult for the more volatile asset classes, such as stocks. Although the stock market has generated healthy returns over the long term, it's typically with short bursts of performance, both up and down. In my article in last quarter's *On Investing* (Summer 2007, page 11, "'Time in the Market' is

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FALL 2007

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