The Cost of Market-Timing The risk of missing the best days in the market, 2000-2019



6% Return	6.1%							• • • • • • • • • • • • • • • • • • • •		
Return	•									
4										
2		2.4%	0.1%							
0					-1.9%					
-2							3.8 %			•••••
-4								-	-5.5%	•••••
-6	Invested for all 5,035 trading days	10 best days misse	d 20 best	days missed	30 best days	missed	40 best days	missed	50 best day	s missed
Daily returns for all 5,035 trading days										
10% Return										
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-5										
-10		2003 2004 2005 and Morningstararese		2008 2009 iliated firms and		2012 2013 sible for each		015 2016 ons, policies c	2017 201 or services	18 2019 PRIYL20
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Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.



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The Cost of Market-Timing

Investors who attempt to time the market run the risk of missing periods of exceptional returns, leading to significant adverse effects on the ending value of a portfolio. This top graph illustrates the risk of attempting to time the stock market over the past 20 years by showing the returns investors would have achieved if they had missed some of the best days in the market. The bottom graph illustrates the daily returns for all 5,035 trading days.

Investors who stayed in the market for all 5,035 trading days achieved a compound annual return of 5.6%. However, that same investment would have returned 2.0% had it missed only the 10 best days of stock returns. Further, missing the 50 best days would have produced a loss of 5.9%. Although the market has exhibited tremendous volatility on a daily basis, over the long term, stock investors who stayed the course were rewarded accordingly.

The appeal of market-timing is obvious—improving portfolio returns by avoiding periods of poor performance. However, timing the market consistently is extremely difficult. And unsuccessful market-timing (the more likely result) can lead to a significant opportunity loss.

Returns and principal invested in stocks are not guaranteed, and stocks have been more volatile than other asset classes. Holding a portfolio of securities for the long term does not ensure a profitable outcome, and investing in securities always involves risk of loss.

About the data

Stocks in this example are represented by the Ibbots on^{*} Large Company Stock Index. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

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