Why the smart money remains fully invested

Some investors feel they have enough information to time the market, waiting for the perfect moments to enter and exit

If this sounds like you, there's something you should know. While you're sitting on the sidelines, some of the market's best single-day performances could slip right by you. A poorly conceived timing strategy means you might be forced to forfeit these gains. Indeed, missing even a handful of days could seriously reduce your portfolio's long-term performance.

It's time, not timing, that counts when it comes to potentially maximizing your investment return.

Missing the 20 best days could cut your return in half

If you had invested a hypothetical $10,000 in the S&P/TSX Composite Index on December 31, 1992, over 10 years, your $10,000 would have grown to $23,835 – an average annual total compound return of 9.07 per cent. But suppose that during that period there were times when you decided to get out of the market and, as a result, you missed the market's 10 best single-day performances over this 10-year period (remember, this is just 10 out of a total of 2,517 business days). In this case, your 9.07 per cent return would have fallen to 4.86 per cent. If you had missed the market's 20 best days (again, just 20 out of a total of 2,517 business days) that 9.07 per cent return would have dropped to 1.53 per cent.

It's time, not timing, that counts

The more you try to time the market, the greater your chances of missing the market's biggest single-day gains. That's why most experienced investors don't play the timing game. They don't let the market's short-term fluctuations sideline them or dictate their investment strategy. They are patient investors – focused on the long term. Of course, past performance cannot guarantee comparable future results. But one thing is clear: It's time, not timing, that counts when it comes to potentially maximizing your investment return.

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Hypothetical investment of $10,000 in the S&P/TSX Composite Index from December 31, 1992 to December 31, 2002

Period of investment	Average annual total return	Growth of $10,000
Fully invested (2517 days)	9.07%	$ 23,835
Miss the 10 best days	4.86%	$ 16,064
Miss the 20 best days	1.53%	$ 11,630
Miss the 30 best days	-1.32%	$ 8,765
Miss the 40 best days	-3.67%	$ 6,907
Miss the 50 best days	-5.73%	$ 5,587
Miss the 60 best days	-7.62%	$ 4,582

As at December 31, 2002, the 1-, 3-, 5- and 10-year average annual total rates of return for the S&P/TSX Composite Index are -12.44%, -6.32%, 1.28% and 9.07% respectively (including reinvestment of all dividends). Returns are net of portfolio fees and expenses and do not reflect sales or redemption charges payable by the security holder. The S&P/TSX Composite Index is a broad-based market-capitalization-weighted index of the largest, most widely held stocks traded on The Toronto Stock Exchange and is commonly used as a benchmark to measure the price performance of the broad Canadian equity market. An investment cannot be made directly in an index.

Source: Bloomberg.

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AMVESCAP is dedicated to helping people worldwide build their financial security, offering a broad array of investment solutions and services to individuals and institutional investors in 150 countries. Its securities trade on the London, Frankfurt, New York, Paris and Toronto stock exchanges. AIM Trimark and its associated companies under the AMVESCAP umbrella draw on the talents and expertise of more than 550 investment professionals in more than 25 countries to manage over $500 billion** in assets worldwide.

**As at December 31, 2002

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