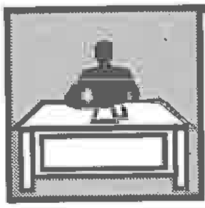

There has been a shift in investor timing mistakes: Before, investors panicked at market lows, while now many are trying to call market tops and exiting too soon.

A Friendly Reminder From the Experts: Don't Try to Time the Market

By James B. Cloonan

A number of events recently reminded me of the importance of maintaining a consistent stock portfolio and not trying to be a market timer.

Both of the luncheon speakers at our summer National Meeting in June were very convincing on this point.

Jeremy Siegel, author of "Stocks for the Long Run," examined the behavior of stocks and other securities going back nearly 200 years [this was reported in "Equity vs. Fixed-Income: Return Patterns Since 1802" by Jeremy Siegel in the June 1992 AAII *Journal*]. While investors usually look at the Ibbotson-Sinquefield data that goes back 70 years, it is amazing how consistently the market has moved up for about as long as the U.S. has existed.

Jeffrey Vinik, manager of Fidelity's Magellan Fund, also argued for staying fully invested and indicated the specific areas of growth that he foresees and the reasons that even the short-term trend would be up.

Not too long ago, John Bogle of Vanguard noted that studies of the buy and sell patterns of Vanguard mutual fund stockholders indicated that individual investor results were not as good as the results of the funds themselves. Such an occurrence can only come about as a result of individuals moving in and out of the market at the wrong times.

A Shift in Mistakes

I believe there has been a shift in mistakes most individuals make. In times past, investors seemed to panic when the market corrected significantly. Their patience gave out just before the market resumed its trend up. There are several times when the market seems to spike up, moving faster than usual. One of these times is just after a downward adjustment ends. Investors who get out before the rebound miss some of the strongest up days.

It seems many investors have learned not to panic out of a downward adjustment. October 1987 and some later down periods were good teachers. The problem now seems to be that many investors are trying to call market tops and are exiting the market during a run-up, hoping to get back in during a correction. Since another period with strong up days is the final push before consolidation, these investors also miss some of the strongest up days.

History shows that it is bad to miss the strongest up days. During the last decade, if you missed the 20 best days, the annualized return of the S&P 500 dropped from 17.5% to 9.3%. If you missed the 40 best days, you did about the same as T-bills.

Stay Fully Invested

It is important to keep your stock portfolio fully invested in the stock market. In other words, whatever percentage of your wealth should be in stocks—keep it in stocks. There are times when the market seems less risky, and my personal feeling is that during these times, investors should go above the normal allocation (in my November 1994 column, I suggested that early December 1994 was such a time and I personally went above my normal allocation). But never go below it.

You can certainly adjust to the business cycle, as well as the nature of the times to switch into different groups of securities, and you can sell individual issues when they don't meet your criteria anymore, but reinvest in other issues immediately.

While part of the reasons that the average mutual fund underperforms the market is that it has fees and transaction costs, another reason is that most funds are less than 100% invested because they need liquidity. Dropping to 95% invested will reduce performance over the long run.

Look at long-term market history. I strongly recommend our National Meeting audiotapes and workbooks that include Jeremy Siegel's and Jeffrey Vinik's luncheon presentations [see the inside front cover for details]. Look at the minimal risk for a long-term diversified investor.

Whatever your permanent percentage allocation of wealth to equities, maintain it constantly. You might want to go above it when the market goes down significantly, but don't go below it.

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