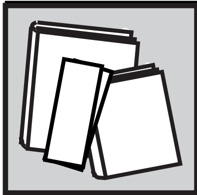

INVESTMENT RESEARCH

Investment research presented in papers, academic journals and other periodicals that may be of interest to individual investors.

Bad Timing and Long-Term Investing

Stock Market Has Good and Bad Times But Study Shows Any Day Has Been a Good Day to Invest*, by Brett Skakun; a study appearing in the second quarter issue of On Course, published by the Consulting Group, a division of Smith Barney; Bethesda, Md.*

Short-term market volatility causes considerable anxiety in many investors, who often hesitate to invest because they fear they will be investing money when the market is at a high point.

However, these fears tend to overlook the strong long-term upward trend of the market. Over longer time periods, the strong upward bias of the market tends to overpower the short-term volatility.

A study by Smith Barney's Consulting Group (and published in their On Course second quarter newsletter) puts these short-term fears into context. The study sought to answer the question: What would have happened if an investor had put money into the market at the worst possible time—when stock prices hit their high for the year—but left it to accumulate over long time periods?

The study calculated how much an investor's portfolio would have been worth over various time periods if $1,000 were invested in the S&P 500 at the high for each year. An investment in Treasury bills and the inflation rate were also included for comparison.

The study indicated that even with the worst possible timing, an investor would have earned returns that were significantly greater than an investment in Treasury bills; the investor also would have outpaced inflation.

In addition, the study only examined price appreciation; an investor would have had even higher returns if dividends had been included.

The study also examined three other timing patterns for comparison:

- Investing on January 1 of each year,
- Investing at the average for the year, and
- Investing at the low for the year.

Not surprisingly, the investor would have been best off investing at the low point each year, yet investment at the beginning of the year produced returns that were strikingly similar.

The author observes that, given the market's tendency to rise, market lows are most likely to occur early in any given year. He noted that the market's low came during the first quarter in 31 of the 56 years covered in the study (55% of the time), while the market's yearly high occurred in the last quarter fully 28 times (50% of the time).

The bottom line for investors: *Good returns can still come out of bad timing decisions if an investor sticks to a long-term buy-and-hold investment program. The earlier an investor is in the market, the better.*

Table 1.
Timing Decisions and Long-Term Investing: A Comparison of Returns

	$1,000 Invested Annually in the S&P 500* At:								$1,000 Annually in		
Period	Annual High Point		Annual Average		Annual Low Point		Each January 1		Treasury Bills		CPI
	($)	(%)	($)	(%)	($)	(%)	($)	(%)	($)	(%)	(%)
1940-1995	790,866	7.5	876,444	7.7	1,000,110	8.0	901,531	7.8	219,289	4.3	4.4
1950-1995	350,162	7.2	386,441	7.5	434,545	7.9	404,407	7.7	174,672	5.1	4.2
1960-1995	171,309	7.3	188,253	7.7	214,485	8.3	193,143	7.8	120,177	6.0	4.7
1970-1995	97,631	8.8	108,225	9.4	124,695	10.2	111,767	9.6	67,346	6.9	5.5
1980-1995	39,493	10.0	43,897	11.1	50,488	12.6	46,398	11.7	28,452	7.2	4.4
1990-1995	8,118	8.7	8,802	11.1	9,806	14.2	9,159	12.2	6,766	4.8	3.3

** Price appreciation only; dividends not included*

Source: Consulting Group, Smith Barney Inc.