Can You Time the Market?

There is an old joke about a chicken trying to convince a pig to start a ham and eggs restaurant. The chicken realizes that the pig is a little hesitant in their joint venture and after further probing, the pig expresses his reservations. He tells the chicken he's has an issue starting the partnership because even though he knows they'll both be involved, the chicken won't be equally committed.

As you enter retirement, you'll transform from the chicken into the pig. Your investment strategy will change from one in which you are just involved to one where you are fully committed. You'll no longer have the luxury of an employment pay check that allows you to weather negative markets returns.

We speak with a lot of people who are near retirement and in their peak earnings years. It's not uncommon to talk to people who are hoarding cash and still waiting for the right moment to invest. Although these people can recite the dangers of market timing and how it's an exercise prone to failure, they still think they can navigate their situation because the next market move will be readily apparent.

I suspect this cognitive dissonance about investing in retirement occurs more frequently than we would like to admit to ourselves. We frequently get write-in questions from very informed readers littered with phrases like:

"given the current dangerously volatile market…the inevitable interest rate increase and subsequent market crash...with the historical recent market upturn it is only a matter of time before…"

The only universal solution for these concerns is a more holistic retirement income framework beyond simple investments. All of these macro-driven concerns are already priced into the market, and there is really nothing you can reliably do about it. Risk drives market returns.

Once in retirement, investment discipline is the best option as your investments will invariably be the main engine for growth and distribution planning.

I know this is not some revelation, but it doesn't make it any less true. It's as boring as watching paint dry, but to have a successful retirement portfolio you need this prerequisite, especially because life expectancy is greater than ever before, so your portfolio needs to last longer as well.

And no matter how much smarter we think we are in many other professions, very few people are smarter than the markets. Really.

As investors, our job is not to outsmart the markets – that's impossible to do. Our job is to create a well-diversified portfolio to mitigate the volatility we'll experience and harvest the market returns that present themselves.

Missing monthly periods of the market here and there because you were on the side-lines will most likely be a net negative, and you can't afford that within a retirement income plan. You only have one life and you can't miss the returns when they present themselves. Missing only a few days can have a huge impact on your overall returns over the course of decades.

The article "Can You Time the Market?" by Alex Murguia presents how the odds are stacked against timing, and it explores the inevitable cost of trying to time the markets.

Once you realize that when you invest for retirement you're making a bet on capitalism and you're rewarded for taking on market risk, then you will only really need to get a few other key decisions right to have a successful investment experience.

The above article extract was published online by Bob French, writer for Retirement Researcher.

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