Timing The Market

Debunking the Myth of Time in the Market as the Best Investment Strategy

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Dedication

To my wonderful children

Kim and Simon

Acknowledgements

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Thank you!

Markets are never wrong, but opinions often are.

Jesse Livermore

(The Original Wolf of Wall Street)

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Introduction

There is no shortage of advice about the stock market from financial experts, yet the sad fact is that most of these experts have a dismal record and fail to beat the market. However, that doesn't stop them giving advice to others, and many people follow their recommendations to their detriment.

The most prevalent myth is that 'buy and hold' for the long term is the best, most profitable strategy. We are repeatedly warned that timing the market, getting out when it is going down and buying in again when it is going up, is impossible. We are told that timing the market is a failed strategy so we shouldn't do it, and instead stay fully invested, through good times and bad.

But here's the thing about that advice: ***It is wrong!***

Timing the market is not only possible it gives much better results than staying in and riding out bear markets, as you will see when you look at the results.

Hard to believe? Yes, but after you have read this book, you will never follow such bad advice again. You will know a simple way to time your market exits and entries which will bring you way better profits than staying in through the losses.

Chapter 1. You Heard It From The Herd.

'You can't time the market' say the experts, ***'It's time IN the market that makes the money'.*** You've probably heard it hundreds of times, in books, websites, news articles. But is it really true?

Since the end of the bull market very early in 2022, we have had hundreds of 'market experts' lined up to scare us into staying in the stock market and to not withdraw our money. The financial press has enthusiastically joined in, with pages full of 'wise' advice about the dire consequences of selling your investments when the market goes against you.

You know the headlines:

Don't try to time the market – it doesn't work.

It's time in the market, not timing the market.

The best strategy is not to try to time the market.

Market timing fails as a money maker.

6 Reasons why market timing is for suckers.

Good investors stay in for the long term.

Buy and hold is the wisest thing to do.

Studies show that market timing doesn't work.

These are actual headlines, and they are all by respected commentators that millions of people follow like CNBC, Yahoo, Investopedia, Motley Fool, Seeking Alpha, JP Morgan, several major banks, Forbes, and many others.

You can see that the financial advisers are all very keen for you to stay fully invested even when you are losing money. Why? Because they don't make any money when you are sitting on the sidelines in cash. There's no advantage to them in that. So, they come up with reasons you should ride out the storm. It's almost as though they were trying to frighten you into staying in the market.

Of course, everybody 'knows' that the 'experts' are right when they say, '***it's time in the market not timing the market'***. It is commonly accepted wisdom, and anyone who goes against the tide of popular opinion gets very little traction in the press or anywhere else. But here's the thing about that advice**:** ***it's all wrong,*** as we'll see in this book.

Staying in the market does NOT produce better results for the investor. It definitely produces better results for the market experts who handle your money and charge you for the privilege, but worse results for you as an investor.

The Echo Chamber

At this point you will probably have a healthy dose of skepticism about that claim. After all, if financial advisers,

bank chairmen, the financial press, and investment gurus all tell you that that is right then surely it ***must*** be right, mustn't it?

After all, they are the experts, and they all agree with each other. There's a consensus. Most investors trustingly believe them and hand their money over to these experts to look after, so surely, they can't be wrong.

Yet they are wrong. OK, some cynicism here is totally understandable. After all, who am I to challenge expert advice and recommendations? So about me. I am not a financial adviser, and I don't work for, and am not affiliated with, anyone except me. For the last 25 years I have been trading the stock market, and have written several books, but more of that later. I am afraid that I'm a bit of a nerd and love debunking myths. I have a mathematical/statistical background and I was in IT for most of my working life until I stopped working for other people almost 20 years ago and started my own business.

One of the things both mathematical statistics and IT teach you to do is ***look at what is actually there,*** not what you think is there or what someone has told you is there or what *should* be there. In other words, if someone tells you that something is true, then before you act on it you need to check out the truth of the statement for yourself. So, I applied my skepticism to the stock market advice about market timing and went in search of the truth.

So, let's recap: this is the advice we've been given, and this is what we are going to do about it:

- **Buy and hold is the best strategy.** Let's look at the data and find out if it supports the theory and answer the question: Do investors who stay in the market through all market conditions really do better than others who time their entries and exits?

- **Studies show market timing doesn't work.** Many studies are said to say this, but do they really? We'll look at those studies and see if they actually prove what they say they do.

Data and Replicability

One of the great things about researching the stock market is the amount of data that is publicly and easily available. You can go back 100 years in some cases, so there is no lack of data to analyze. It's the opposite, really. The amount of data is enormous, and once you start going back decades the spreadsheets can get ridiculously huge and unwieldy. But that is just a minor issue. The main advantage is that:

The data availability means that any conclusions that I draw can be replicated by anyone willing to put in the time and effort, and the replicability of results is the basis of the scientific method.

This is a 'Short Read'

After writing four full-sized books, and having lots of questions and comments from readers, I realized that sometimes people just want to know about a topic without having to wade through an entire book.

Sometimes they just need a refresher on a specific subject but can't remember exactly where they read it. To address this need, I decided to write short books on individual topics in the stock market. I selected the topics based on what I got the most questions from readers about.

This book is the first 'short read' to be published and is part of the **One Hour Expert** stock market series. The information covered in these books is too much for a simple report, but the scope is too limited for a full-sized book. It's more like a short story rather than a novel or a newspaper article. These books are designed to be read in an hour or so, although you may want to come back and reread particular parts.

Can We Time in the Market?

Halfway through this book, after you have looked at the results you will probably throw your hands up in despair and decide never to believe a financial 'expert' ever again. You will think***: If their advice doesn't work what am I expected to do?***

Fear not, I am not going to leave you with no hope and nowhere to go. I will show you a very, very simple way to time the market that beats all the experts, backtested for 30 years. It's really easy, takes hardly any time and it doesn't cost anything at all. So, here's what we are going to do in this book.

First, we are going to look at the most commonly cited piece of advice that says staying in the market through thick and thin is the best strategy. I'll look at market data going back 30 years and show you how the studies have told a little bit of the truth but left out a lot of very important results which have a huge effect on your investment results. Then, we'll look at **if** and **how** we can time the market.

The big question***: is there a way we can time the market safely and effectively?*** The good news is, yes, absolutely, there is. There are several ways you can do this (and this is what my series In The Money is about) but I'll show you one very simple way that you can tell when to get out of the market and when to get back in, and which makes an enormous increase in your portfolio returns.

There are no "gotcha's" about any of this, it is an easy strategy you can easily do yourself using one of the many free charting tools available and you don't have to subscribe to anything to be able to implement it. My blog, **HeatherCullen.com/blog** is free and open to anyone, you don't even have to register unless you wish to be notified when there is an update.

So, let's start our investigation. Stock markets are not made up simply of stocks and companies, but of people who are deciding to buy and sell these stocks. Their decisions are what makes the market go up or down, and millions upon millions of these decisions are being made every day.

The Law of Large Numbers

Believe it or not there is a theorem called the **Law of Large Numbers**. The name amused me during my university studies as it seemed more suited to a Monty Python skit. If you were a billion, did you have to behave better than a million? Did hundreds get away with more bad behavior than thousands? I mused on such things through many a dreary lecture.

The Law of Large Numbers basically says that as a sample size grows, its mean (average) gets closer to the average of the whole population. For example, if you throw a die each of the 6 sides has an equal probability of landing on top so if we threw the die, say, a million time the average would be very close to 3.5. However, if you threw the die, say, three times then the average of the three values would likely not be exactly 3.5, but the more you throw the die (i.e., the bigger your sample size), the closer the average will get to 3.5.

What does that have to do with the stock market? Two things: