INTUITION
18 AUGUST 2023

Timing is everything.

Timing is everything, especially if you are a stand-up comic or professional athlete. Timing is also unbelievably difficult - if you have ever attempted triple jump you will know what I mean. Many may know that I am an avid golfer. It is incredible to see a slight and vertically challenged individual (yes, I mean short, but some of those guys get touchy if you call them that!) outhit a muscular giant. It is something to see, yet it is all about timing. Timing is a skill in markets too. Everyone wants to buy low and sell high but getting it wrong can be extremely costly. Often one side of the transaction (either the buy or sell) is easy to spot but the corresponding trade is not always as clear. The asset management industry has long held the view that market timing is a fool's game where the costs outweigh the benefits. Of course, there have been some high-profile victors, but by and large they do not sustainably produce results over long periods. That said, there are times when being judicious is the prudent approach, and market timing should be applied.

Robin Gibson

If we are honest, we all love a bargain. So much so that advertisers use our psychology around this against us all the time – "3 for 2" specials, Buy one get one free (BOGOF), take 2 for a discount, if you buy now you also get…. These are some of the bargain terms with which we are all familiar. We are also very comfortable buying an investment with the juicy prospect of a quick return, often blind to the risks (or patience required). We also almost all suffer from FOMO (Fear of Missing Out) especially when we hear about somebody else's fantastic success in something we didn't have.

I think the Rand is a perfect example of our behaviour. South Africans have consistently panicked in periods of extreme Rand weakness only to regret it for some time later at their leisure. We explored this idea in my 14th July 2023 article (Not all is as it seems). The most recent Rand behaviour is a good example. The Rand fell to R19.80/$ in May as the US Ambassador ranted about suspicious activity in Simons Town, yet by mid-July the Rand had recovered to R17.25/$. It hasn't held those gains, but it shows the potential of what a little good news plus global tailwinds can do. This is a 13% appreciation within 90 days and just highlights the danger of acting on sentiment.

This all reminded me of a regularly recurring article that is written regarding investing in markets and timing.

SPEED READ

- **Investors often look at charts and can easily identify the points at which purchases and sales should have been made. Market timing in this manner is perfection. Hindsight, as they say, is an exact science.**
- **There have been a few high-profile success stories of market timing, but sadly very few of the failures make the headlines (or the braai fires). Egos find sharing such trauma too painful.**
- **Two investment strategies are doomed to failure - market timing and reacting in panic - and usually both for the same reason, namely that our timing sucks!**
- **An excellent example we have seen repeatedly can be the translation of Rands into Dollars, which can spike sharply whenever the Rand blows out from a perceived political consequence. This can have long-term consequences for investors, similar to buying an overvalued share.**

Coincidentally, a refresh was published by Visual Capitalist (www.visualcapitalist.com) this week, illustrating the point.

If you had invested $10,000 in the S&P 500 on 2nd January 2003 and left it until 31 December 2022 you would have enjoyed one of America's greatest bull runs and seen your money grow to $64,844 (thanks to Amazon, Tesla, Nvidia, Netflix, etc.) Bear in mind that during that period you would have endured a drop of 55% during the 2008/9 Financial Crisis and 31% during the Covid crisis.

" Poor planning, unrealistic expectations, and dependency on capital gains generally result in anxiety and panic, which can easily lead to catastrophic consequences or actions."

The article does not illustrate what would have happened to your money had you withdrawn it at the bottom of those dips, but what it does do is illustrate what your change of investment return would have been had you merely missed the best 10, 20, 30 (and so forth) trading days on the market. It illustrates what we are often at pains to point out, that markets deliver what you need in lumpy spurts and seldom in the nice smooth line we would all like. Table 1 below demonstrates the effect of removing these good days from the equation. The numbers make for sobering reading.

What this data fails to demonstrate is the control of emotions needed to endure volatility and market gyrations. However, we would argue that a dedicated financial planning strategy provides the fundamental framework to endure difficult markets. Dividend focus, diversification, and realistic long-term planning provide the necessary tools to achieve a well-structured financial plan. On the contrary poor planning, unrealistic expectations, and dependency on capital gains generally result in anxiety and panic, which can easily lead to catastrophic consequences or actions.

US RETURNS OVER 20 YEARS		
Being Invested	**Portfolio Value**	**Annual Return (2003-2022)**
Invested all the Days	$64,844	9.80%
Missed 10 Best Days	$29,708	5.60%
Missed 20 Best Days	$17,826	2.90%
Missed 30 Best Days	$11,701	0.80%
Missed 40 Best Days	$8,048	-1.10%
Missed 50 Best Days	$5,746	-2.70%
Missed 60 Best Days	$4,205	-4.20%

The impact of removing the best days from an investment portfolio over a given period illustrates the destructive effect of following a market timing strategy. Source: www.VisualCapitalist.com

Often, ignorning the noise and volatility of the markets is the best policy you can make.

Our next Insight seminar will take place in September in Howick and Johannesburg. The topic will be announced in due course.

Harvard House is on Facebook

Harvard House is on YouTube

Topic:	TBC
Natal Midlands	
Date:	21st of September 2023
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	19th of September
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	n/a
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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