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Waiting to Invest Can Cost You

The Importance of Remaining Always Invested

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When Being Fashionably Late isn't as Impressive

Everyone is familiar with the concept of "fashionably late": intentionally arriving late to an event in order to impress the other guests. However, when it comes investing, if you show up late, you might just miss the party.

The current bull market recently surpassed its 8½ year mark, giving me the opportunity to crunch some numbers. What I found was rather interesting. There were 2,142 trading days in the eight-and-a-half-year span running from March 10, 2009 to September 9, 2017. If you were to sort those 2,142 trading days from best one-day return to worst, FIVE out of the top fifteen days happened within one month of the bottom of the market.

	Date	Return
1	3/23/2009	7.10%
2	3/10/2009	6.37%
3	8/9/2011	4.74%
4	8/11/2011	4.65%
5	5/10/2010	4.40%
6	11/30/2011	4.35%
7	3/12/2009	4.09%
8	8/26/2015	3.91%
9	4/9/2009	3.81%
10	10/27/2011	3.43%
11	8/23/2011	3.43%
12	10/10/2011	3.41%
13	5/4/2009	3.39%
14	5/27/2010	3.32%
15	3/17/2009	3.22%

Source: Morningstar Direct, Swan Global Investments

Started from the Bottom

In the 31 days after the market bottomed, the S&P 500 was up 26.9%, an astounding amount over a very short period of time. An investor who participated in the full eight years of the bull market would have had a return of 335.7%. An investor who arrived "fashionably late" and missed that first month of the bull market would have had a return of 243.4%. While a return of 243.4% is certainly impressive, the cost of missing that first month was 92.3%.

If the first month of the bull market was a 26.9% gain, why would missing it lead to an overall deficit of 92.3%? That doesn't seem to make sense…unless you take into account the compounding of returns.

Compounding Returns in the Real-World

In a previous blog post and white paper, the first key mathematical principle we discuss is taking advantage of compounding returns. While we previously explored the topic from a theoretical, academic standpoint, the analysis of the bull market provides insight to the power of compounding in a real-world scenario.

Let’s assume a $100,000 initial account value: one right when the bull market started and the other a single month later.

Investment Date	Initial Investment	Return: 3/10/09 to 4/9/09	Value at 4/9/09	Return: 4/10/09 to 9/8/17	Value at 9/8/17	Total Return
3/9/2009	$100,000	26.9%	$126,890	243.37%	$435,695	335.70%
4/9/2009	$100,000	N/A	$100,000	243.37%	$343,366	243.37%

Source: Morningstar Direct, Swan Global Investments

By capitalizing on that first month “pop” of 26.9%, the account value increased by $26,890. That additional $26,890 went on to compound by another 243.4% over the next eight years and five months. The “latecomer” approach was at an immediate deficit from which it never recovered.

This is the power of compounding returns in action.

To take full advantage of long bull markets, one must be invested before it even begins. But what is the best way to achieve this? One can attempt to time the market bottoms and tops or remain in the market at all times.

Market Timing is Risky and May Not Pay Off

Market timing is very difficult to implement, and getting it wrong can have significant consequences. The numbers above illustrate that well.

Think back to those dark days of early 2009. How many investors were fully invested and able to capture those outsized returns? After being bruised and battered by the over 50% sell off in the markets, how many threw in the towel? When did those investors finally have the confidence to return to the market? Calling the bottom of the market is quite difficult but getting back in can be even more so.

It is also difficult to call the top of a market. A quick survey of the headlines has expert opinions completely across the board as to how much gas is left in the tank of the bull market. There’s only one surefire way to know when the bull market is over: ***after*** a 20% drop.

Remaining Invested through It All

When bear markets switch to bull markets, it is not always a gradual turnaround; more often than not, it's a big "pop" as the numbers demonstrated above, and we saw that at the end of the Dot Com crash as well. If investors wait until the market recovery is on solid footing, they might just miss the full range of a bull market's returns.

It is for these reasons why the Defined Risk Strategy has the motto, "Always Invested, Always Hedged." We do not try to call market tops. We do not try to call market bottoms. We do not follow a sector-rotation or risk-on/risk-off strategy. We follow our guidelines regardless of whether the market has just sold off by 50% or is in an 8½-year bull market.

About the Author:

Marc Odo, CFA®, CAIA®, CIPM®, CFP®, Client Portfolio Manager, is responsible for helping clients and prospects gain a detailed understanding of Swan's Defined Risk Strategy, including how it fits into an overall investment strategy. Formerly, Marc was the Director of Research for 11 years at Zephyr Associates.

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