Oklahoma City downtown Monthly

MARKET TIMING: CRYSTAL BALL, ANYONE?

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Recent world events and market fluctuations have many folks wondering about "market timing," or trying to leverage the ups and downs to maximize gains. As any reputable financial advisor will tell you, this can be like playing Russian roulette with your money. Here are some "rules of thumb":

- *Getting in and out of the markets at precisely the right moment is virtually impossible.* We are not aware of anyone who has done so over any meaningful time-frame.

- *Research shows that market-timing can seriously damage performance.* For instance, a Dalbar study shows that from 1984 through 2001, the average equity mutual fund gained 11.5%, while the average mutual fund investor earned only 4.2% a year. The reason - poor timing decisions.

- *Recoveries can be very sharp, and missing only a few good days can severely damage long-term performance.* A study by University of Michigan professor H. Nejat Seyhun shows that from 1963 through 1993, the stock market had an average annual return of 11.8%. However, if you missed the 30 best days, your annualized gain dropped all the way down to 8%.

> It's tough to make predictions, especially about the future.
> **Yogi Berra**

So what can you do to protect your investments from market fluctuations?

- *Choose good investment managers*. A good fund manager simply needs to find a small number of good stocks, regardless of whether or not the entire market is attractive. And when the market is driven by fear, good stocks trade down with bad stocks.

- *Remember the importance of diversification*. Not everything goes down at the same time. But it is always a good idea to check if your portfolio is appropriately balanced.

- *Make sure you are in the right investment objective*. The last few years provide a strong contrast to the boom years of the late 1990s. Many people now have a more realistic sense of their risk tolerance, both emotional and financial. Some folks have only recently realized that their appetite for risk is lower than they originally thought, and moving to a more conservative model may be appropriate.

- *Remember to consider the source of any market views you may be reading*. The media has a vested interest in creating urgency in order to get people to "tune in tomorrow to find out what happens next." Also, many investment companies have a vested interest in promoting a view that is most favorable to their products. Whenever reading or listening to an opinion, you should ask two questions: 1) Do I have a good reason for believing that this person is credible, and 2) Does this person have a vested interest in promoting a particular viewpoint?

- *Think long term*. Over short periods there can be a lot of "noise-trading" based on fear or greed, but over longer periods stock prices almost always converge with fundamentals.

In summary, market risk is an investment constant. However, history has shown that return potential on a long-term basis should be good. When the market fluctuates, you may feel tempted to try to time it, but there is ample evidence that this is difficult, if not impossible, to do, and it can actually have dire longer-term consequences for an investment portfolio.

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