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Time invested matters more than market timing

CIO Essentials

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- Even if the Iran conflict and the subsequent oil supply shortages worsen, we do not believe market timing and waiting to build core portfolios is in investors' best interests.
- We provide three reasons why market timing can hurt long-term wealth growth and be an inefficient use of investors' resources.
- By staying invested in a core portfolio, maintaining diversification, and focusing on what they can control, investors can navigate uncertainty and position themselves for the future with potentially greater comfort and confidence.

Geopolitical events like wars can make investors nervous. When conflicts also threaten to limit oil supply, it can seem even more prudent to wait for tensions to ease before putting uninvested cash into markets. This is exactly how today's tense situation in the Middle East is making some think.

Our base case remains that the Iran conflict will gradually de-escalate and tanker flows will resume through the Strait in the coming weeks. We therefore expect oil prices to fall—albeit remain higher than at the start of the year—to around USD 90/bbl into end-June.

However, as we have seen over the course of the war, periods of escalation or heightened tension can push markets to price in a higher risk of a longer conflict, harder-to-repair infrastructure damage, and higher-for-longer oil prices. In such a risk scenario, we think Brent crude oil could climb in the short term to USD 150/bbl or higher.

Investors need to prepare for multiple scenarios. But even in worst cases, trying to time the market may prove more costly than gradually investing and having more time with money in the stock and bond markets.

Market timing is time and resource intensive. Timing the market takes a lot of effort. It requires constant monitoring, quick decision-making, and a deep understanding of global events, policy shifts, and market dynamics. Even professional investors struggle to consistently predict when the market may turn.

By contrast, relying on professionals who build portfolios of stocks and bonds may yield positive results in most instances, assuming proper diversification and risk management. Professional managers may have access to tools that individual investors find hard to access.

Balanced investing also allows for selective positions in assets designed to hold steady or climb when risky assets fall, sometimes called hedges. These can include gold, the government bonds of the most financially robust governments, and even alternative investments like hedge funds.

The best days often follow the worst...and missing them risks performance. Statistics show that market timing and missing the rebound can harm wealth creation.

Let's look at the growth of USD 100 invested in the S&P 500 (total return) in September 1989 and compare a buy-and-hold strategy versus market timing attempts. As of February 2025, just buying and doing nothing through crises would have yielded USD 3,617 as of February 2025.

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Miss the best day's performance (13 October 2008, the height of the financial crisis) and an investor would have around 10% less wealth.

Miss the best month's performance (April 2020, the height of the pandemic) and one would have a 13% smaller portfolio.

Many stock markets' strongest days occur within weeks of their sharpest declines. Being out of the market and waiting for a better time to buy back in can miss the recovery. And selling in response to uncertainty locks in losses that may otherwise have been temporary.

Emotional decision-making can hurt performance.
Trying to time the market may be an investor's way to try to manage their emotions. During crises, investors often succumb to "action bias"—the urge to take action simply to feel in control. This can lead to selling when the market bottoms and buying at the top. This erodes wealth over time.

Behavioral finance studies show that investors who react emotionally to market volatility tend to underperform those who stay invested. Strategies like rebalancing can help "scratch the itch" of action bias while keeping long-term plans intact.

We believe it is also important that investors separate short-term concerns from long-term goals. One tool to help investors stay in the market may be to maintain exposure to cash and bonds to cover 3-5 years of spending needs. This should limit the risk of selling other assets when the market is down, rather than allowing assets the time to recover.

While wars and market swings can tempt investors to try to time the market, history and statistics show that this approach is fraught with risk.

By staying invested in a diversified portfolio and focusing on what they can control, investors can navigate uncertainty and position themselves for an uncertain with potentially greater comfort and confidence.

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The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities
Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse “Most Attractive” with “Attractive” and “Least Attractive” with “Unattractive.”

Appendix

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