Buck Financial Advisors, LLC

"Helping you Determine your Financial Future"

BFA

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What is Market Timing?

Market timing is the strategy of making buy or sell decisions of stocks or other financial assets by attempting to predict future market price movements. In other words, buy when the market is low and sell when the market is high. It sounds simple when described that way, but it can be a losing game for professionals as well as beginners. No one has a crystal ball that works all the time. Bubbles can linger longer than anyone expects, just as corrections can fail to bounce back in as timely a fashion as some investors would have preferred.

The real key to making money in stocks is not to get scared out of them. To make money in market timing you have to be right twice. First you have to know when to buy, then when to sell, and of course when to jump back in again. According to Standard and Poor's, only 28% of active managers of large cap funds have beat the stock market returns over the last five years. If professionals, with all their support staff, could time the markets; then why do such a small percentage beat the market average.

The S&P 500 gained 11.8% on average per year from 1982 through 2001. But only investors who stayed invested for the entire time, managed to earn that big return. According to a study UW-Lacrosse; if you had invested $10,000 and stayed the course you would have $93,075. But, if you missed the 10 best days, you would have only $56,044, the best 30 days your results would only be $28,144. As was demonstrated on Tuesday, September 18, 2007; if you were not in the market, you would have missed a 2% gain. If this is an average year, that would be about 20% of your annual gain missed by one day out of the market.

If you know a financial advisor who claims to have the secret of timing the markets, remember this: Andrew Lo of Massachusetts Institute of Technology calculates that a market timer switching between the S&P 500 and Treasury bills would have turned a $1,000 investment into $14,000,000,000,000 from 1926-2002. With that kind of return, why would they want to invest our small accounts.

What can we take from this data? Investors should have a written plan with regard to how their portfolios are allocated and managed. I believe a diversified portfolio of low cost index funds, with periodic rebalancing, keeps our emotions from ruling our decision making and will result in the largest market return possible over the long term.

Buck Financial Advisors provides independent, commission-free financial advice for people from all walks of life. When you or someone you know needs help, Buck Financial Advisors is there. See www.buckfinancial.com for more information.

Charles Buck CFP®

" The best way to own common stocks is through an index fund."

Warren Buffet

Ask a CFP® Professional!

What are some tips for making the most of my 401K?

First and foremost get signed up and start making contributions. Then contribute at least the amount to get any company match. After that contribute what you need, up to the maximum.

Second, develop an allocation that is appropriate to your risk tolerance and age. An allocation of 90% stocks for a 25 year old may be good, but by 55, you may want to reduce that allocation to 65%.

Third, rebalance your portfolio at least once per year. Over the long term, stock and bonds rise and fall in different patterns, therefore if you rebalance back to your original allocation, you are in effect selling high and buying low.

Fourth, don't take money from your account. If you change employers convert your 401k to an IRA. Don't use your 401K account as a piggy bank. Not only will you be destroying your retirement plan, but you will have to pay taxes and most probably a penalty thereby reducing any future growth from tax free compounding.

To remove your name from our mailing list, please click here. If you have questions comments or seek independent financial advice e-mail Buck Financial advisors at charles@buckfinancial.com or call at 651-330-3585.