RBC Global Asset Management

Time in the market vs. timing the market

Time is one of the best assets that many investors have, but they do not always know how to take advantage of it. This is especially true when markets turn volatile. At such times, many investors sell out of the market and/or hold their cash on the sidelines, waiting for the perfect time to invest.

It's important to understand that trying to time the market seldom works. Equity markets can get volatile in the short term, but **over the long term they tend to rise.** This means that an investor who stays in the market generally has a much higher probability of long-term success than one who tries to pick the perfect time to invest.

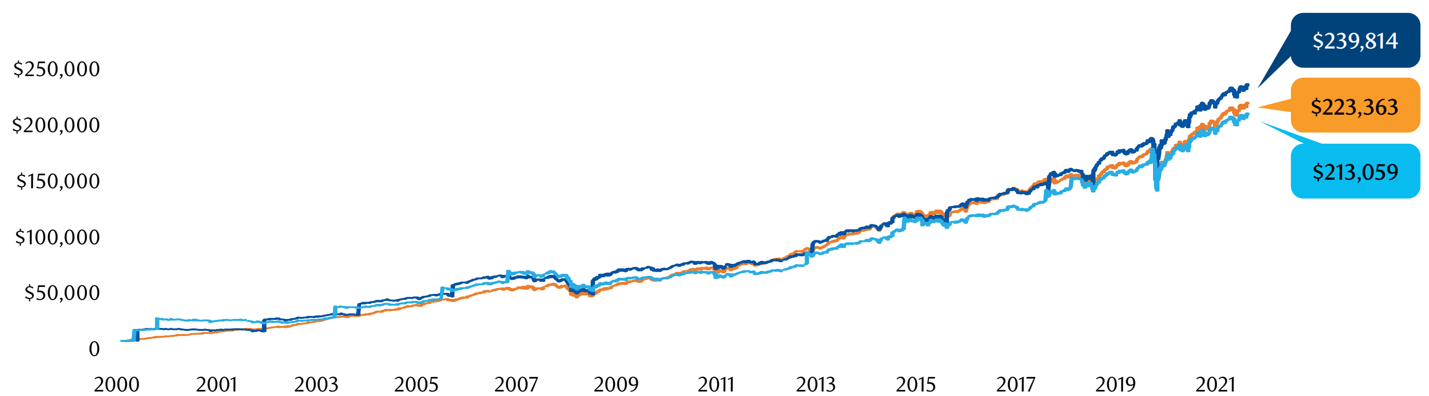
A tale of three investors

To illustrate, let's consider three hypothetical investors in RBC Select Balanced Portfolio since January 1, 2000. Each investor made contributions to the fund at different times, totaling $105,000.

Investor 1 was lucky and invested when prices had dipped to short-term lows.

Investor 2 did not attempt to time the market but invested at regular intervals according to a financial plan.

Investor 3 inadvertently selected the ten worst times to invest: when prices were at short-term highs.



Source: RBC GAM. RBC Select Balanced Portfolio (Sr. A). Performance period January 1, 2000 - December 31, 2021

[1] Short-term market lows: 04/14/2000 | 10/09/2002 | 08/13/2004 | 06/13/2006 | 03/09/2009 | 06/24/2013 | 02/11/2016 | 02/08/2018 | 24/12/2018 | 03/23/2020.
Short-term market highs: 03/26/2000 | 09/04/2000 | 03/01/2004 | 04/05/2006 | 07/19/2007 | 05/21/2013 | 04/12/2015 | 01/23/2018 | 07/19/2018 | 02/19/2020.
"$378.79 monthly investor" made pre-authorized contributions on the last trading day of each month over the period indicated.

Fund performance as of 31-Dec-21: 1yr: 10.1%, 3yr: 11.3%, 5yr: 7.7%, 10yr: 8.0%, Since Inception: 6.6% (Dec, 1986).

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The results

Even though the three investors took very different approaches to investing, there is not much difference in the end result. All three investors were able to benefit from compounding over the long term.

The chart also illustrates that Investor 1 only modestly outperformed Investor 2, even though they were lucky enough to time the markets perfectly. The lesson here is that investing at regular intervals is an effective and potentially less stressful approach to building wealth over the long run and during any type of market.

As a long-term investor, it's important not to worry about trying to get the absolute lowest entry point when putting cash into the market. A disciplined approach is often the best way to meet your long-term financial goals.

Periods of volatility can be good times to review your financial plan and long-term goals to ensure they remain on track. Contact your advisor today to learn more about how regular investing and a long-term plan can be a simple and effective way to help you reach your goals.

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