INVESTMENT FUNDAMENTALS

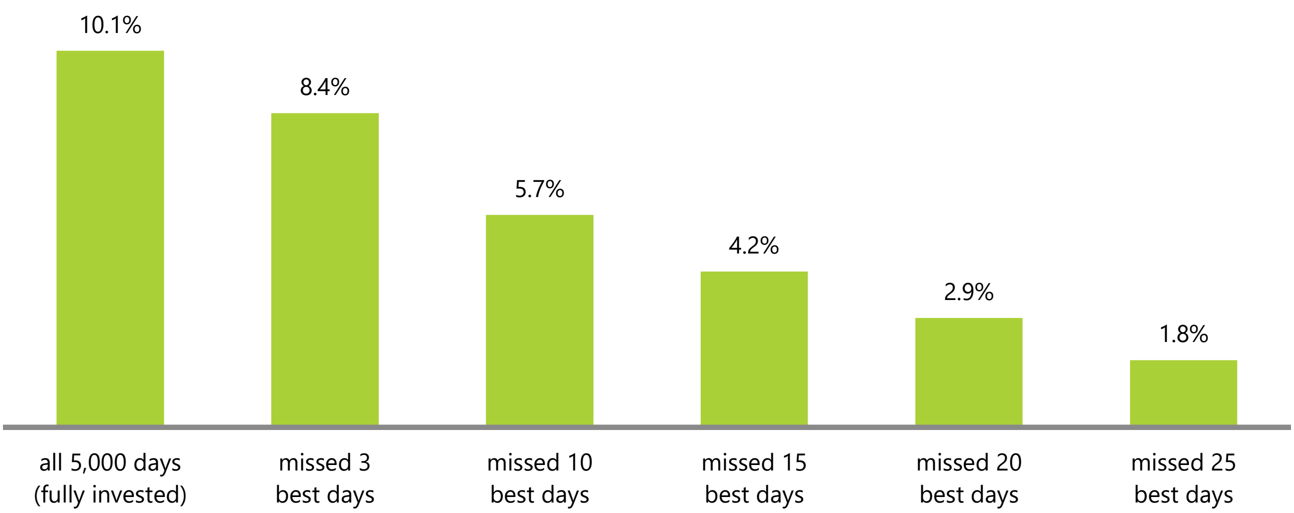
Market timing.

The idea of market timing—opportunistically buying when the market is low and selling when the market is high—is not without its allure. Buying low and selling high at just the right moment certainly sounds like an easy way to get rich quickly. But fledgling market timers beware: Over the long run, reliably timing the market's price swings can be easier said than done.

Perhaps the key piece of conventional wisdom in investing is to "buy low and sell high." But while it may be simple to envision how one could implement such a strategy through market timing, it can be much harder to enact in the real world. For this reason, "you can't time the market" is perhaps an equally important pearl of investing wisdom. For one thing, a successful market timing strategy is difficult to execute because the market's highs and lows are difficult, if not impossible, to predict—even for professional investors. As with other forms of speculation, while some may get lucky timing the market on occasion, it is not a reliable basis for a long-term investing strategy.

Another shortcoming of market timing is the simple truth that selling in an already deteriorating market and waiting on the sidelines for the right moment to get back in can prove costly. It is important to consider that days of wide price swings, up or down, tend to be clustered together. Positive price surges often follow on the heels of sharp downturns, but an investor that has already sold out of their position misses out on these strong rebounds. While missing out on a single day may not seem like a big deal, Exhibit 1 depicts how missing the market's best days can be a serious drag on long-term returns.

Exhibit 1: Annualized returns of S&P 500 Index: last 5,000 trading days



Sources: Bloomberg, SEI. May 26, 2005 to April 9, 2025 (5,000 trading days).

The bar on the far left shows the S&P 500 Index's annualized performance over 5,000 trading days. The chart's second bar from the left shows the impact on returns that would come from missing just three days over that period (albeit the three *best* days). Moving rightward across the chart, that cost grows even more significantly as an investor remains uninvested for more of the market's best days. If a hypothetical investor had sat out the 25 best trading days of the past 5,000 (a mere 0.5% of the period in question) rather than staying invested, their annualized returns would fall from over 10% to below 2%.

While attempting to time the market may seem like a shrewd strategy at first glance, it is unlikely to deliver consistent results over the long term. Complications such as knowing when the market has hit relative highs and lows render the approach unfeasible in practice. Furthermore, waiting for the right moment to get into the market could, ironically, lead one to miss out on the days when it performs best. Like other "get-rich-quick" schemes, market timing may have a superficial allure, but it has not proven to be a reliable approach to investing over the long term.

Index definitions

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

Important information