



Article

# Why Trying to Time the Market Could Cost You More Than You Think

It's very common to think we're masters at timing the market:

"I'll wait until the price drops, then I'll buy and hold it until it hits a 'peak'. Then I'll sell it for a profit and do the process over and over again."

Others come at it from a different (more cautious) angle: "Wouldn't it be better to wait until things settle down before investing, or to sell and sit in cash when things look uncertain?"

For many people, trying to time the market feels like a sensible strategy. In reality, it is one of the most expensive mistakes investors make.

The problem is not the instinct itself. The problem is that market timing is almost impossible to execute successfully on a consistent basis. That's even true for professional investors with vast resources and data at their disposal.

## The Cost of Being Out of the Market

Here is a striking fact: missing just the ten best days in the market over a ten-year period can cut your returns [roughly in half](#).

The challenge is that those best days are rarely predictable. They often come clustered around periods of volatility and uncertainty - precisely the moments when nervous investors are most likely to sell and step aside.

Sometimes they happen in the middle of downturns, as markets bottom and begin to recover. Sometimes they come after bad news, when sentiment is at its darkest.

If you are sitting on the sidelines in cash, waiting for things to feel safer, you will likely miss them. And because you cannot know in advance which days those will be, the safer strategy is often the one that feels most uncomfortable: staying invested through the uncertainty.

## Why Professionals Struggle Too

Professional investors are not consistently successful at market timing either, even with teams of analysts, sophisticated algorithms, and real-time market data. In fact, many of them perform worse than passive investors who simply buy and hold.

If the professionals cannot do it reliably, why do so many individuals believe they can? Part of the answer is overconfidence.

After a successful prediction (usually made in hindsight), it is easy to believe the pattern will repeat. We remember vivid market crashes and convince ourselves we will get out before the next one. We rarely remember all the false alarms, the times we were wrong or the gains we missed by being out of the market.

Another part is simple pattern recognition gone wrong. Markets do cycle, and cycles do repeat - but not on a schedule you can predict.

Trying to anticipate the turning points is like trying to catch a falling knife. Even if you succeed occasionally, you will eventually get cut.

# Timing the Market Versus Time in the Market

Here's the "boring" but important reality: consistent, long-term investing through market cycles outperforms short-term trading and market timing.

This is not because you never get an opportunity to sell high. It is because getting the timing right on both the exit and the re-entry is exponentially harder than simply staying put.

You need to be right twice: once when you sell, and once when you buy back in. Most people get one of those wrong.

Worse, if you sell and miss a big recovery, you face a psychological barrier to getting back in. The market has risen, your conviction has wavered, and the fear of buying at a new high often keeps you on the sidelines just long enough to miss the real gains.

Those who do best are often those who invest regularly and adjust their allocation periodically as life circumstances change. Otherwise, they leave things alone. Those who do the worst are often the very engaged investors who trade frequently and react to market moves.

## The Real Reasons Markets Move

Months, quarters or even a year or two of market performance are largely random noise. They are influenced by:

- Sentiment
- Technical factors
- Short-term flows
- countless pieces of news that seem important but collectively amount to little.

Years and decades of performance, by contrast, are driven by fundamentals: earnings, productivity, economic growth and dividend yields. Over time, these do matter enormously.

The implication is clear. If you are trying to profit from short-term market movements, you are betting on random noise. The odds are not in your favour.

If you are investing for the long term (for retirement, a child's education or financial security), short-term market timing is unlikely to help you. It actively hurts you by introducing transaction costs, tax inefficiency and the psychological risk of panic selling.

## Building a Better Strategy

If market timing is unlikely to work, what should you do instead?

First, establish an investment allocation that reflects your goals, your timeframe and your genuine risk tolerance. Not the risk tolerance you think you should have after a good market day, but the one you will actually maintain during a bad one.

Second, agree with yourself in advance what you will do with any new money and what you will do if markets fall sharply. Having a plan in place before emotions run high makes it far easier to stick to.

Third, rebalance regularly. If you set an allocation - say, 60% equities and 40% bonds - and stick to it by rebalancing once a year, you are automatically selling assets that have risen (equities, when markets

are strong) and buying those that have fallen (bonds, when equities have fallen and bonds have held up).

Fourth, consider whether a regular investment programme makes sense for your circumstances. Pound-cost averaging removes the decision-making and ensures you are buying into both peaks and troughs over time.

Finally, stay in contact with an adviser you trust. One of the most valuable things an adviser can do is talk you out of big decisions at the wrong time. During periods of market stress, that guidance alone can be worth far more than any fee.

## The Bottom Line

Markets will continue to fluctuate. Uncertainty will continue to exist. The urge to do something - to sell, to wait, to move to cash - will return again and again.

But the evidence is overwhelming: those who resist the urge and stay invested through market cycles end up significantly better off than those who try to time their moves. The cost of being wrong is simply too high, and the likelihood of being right is too low.

Historically, remaining invested over the long term has generally produced better outcomes for most investors than attempting to time market movements. However, past performance is not a reliable indicator of future results.

If you would like to discuss how market timing might affect your own investment strategy, or how to remain focused on your long-term goals during periods of volatility, please do not hesitate to get in touch with a member of the team. We are here to help.

### **Please note:**

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