It’s all about **time**, not timing

Ruairi McDonald, Investment Development Manager, Standard Life

Investing is, amongst other things, about practicing the art of patience. And investors’ patience has certainly been tested over the past number of years. From runaway inflation to a rapidly rising interest rate environment and heightened geopolitical concerns, there has certainly been no shortage of market volatility to contend with.

We all know that volatility is part and parcel of investing. It’s the price that’s paid for the potential of future reward. But for those that seek investment advice, volatility is often an alien concept that is not particularly easy to understand. And crucially, it’s the behaviour of investors during these volatile periods that will ultimately determine their success, or failure, in achieving their investment objectives.

In behavioural economics, prospect theory describes how individuals make decisions based on uncertainty. The theory suggests that gains and losses are valued differently, and people make decisions based on perceived gains as opposed to perceived losses, regardless of their absolute wealth. The general concept is that if two scenarios are put before an individual, both equal, with one presented in terms of potential gains and the other in terms of potential losses, then the former will be chosen. In other words, the pain of losing €1,000 is perceived as greater than the pleasure associated with gaining €1,000.

This is where the skill and expertise of Certified Financial Planners and Financial Advisers comes into play. Helping your clients to keep their head when all about them are losing theirs, means that their chances of investment success will be significantly greater in the long run. Here’s why.

The very nature of investing means that the value of an investment will rise and fall. This cannot be controlled. This is why focusing on what you can control, such as costs, building a diversified portfolio and providing your clients with support over the course of their investment timeline is of critical importance.

Our “It’s all about time, not timing” chart illustrates just how volatile markets can be. There are a couple of key points to note here.

Markets tend to recover over time

This chart clearly illustrates that we have been through numerous crises and market events over the past 25 years. What is also clear is that after each crisis or market event, markets do recover. I have seen time and time again the expensive mistakes that investors have made by moving out of markets when things get rocky and trying to move back into markets when they have recovered. Crystallising losses could have been avoided and market recoveries were missed.

Avoid market timing risks

Timing the market is a lot more difficult than it may seem, and the consequences of getting it wrong can be significant.

The chart on the following page shows what would happen if an investor missed the single best days in the S&P500 over the past 20 years. If an investor missed the best 60 days, the hypothetical investor’s portfolio would be cut by more than half, from $10,000 to $4,179. Even missing the 10 best days would have had a significant impact on the investor’s portfolio. If missing the 10 best days sounds implausible to you, consider that, over the course of the past 20 years, seven of those best days

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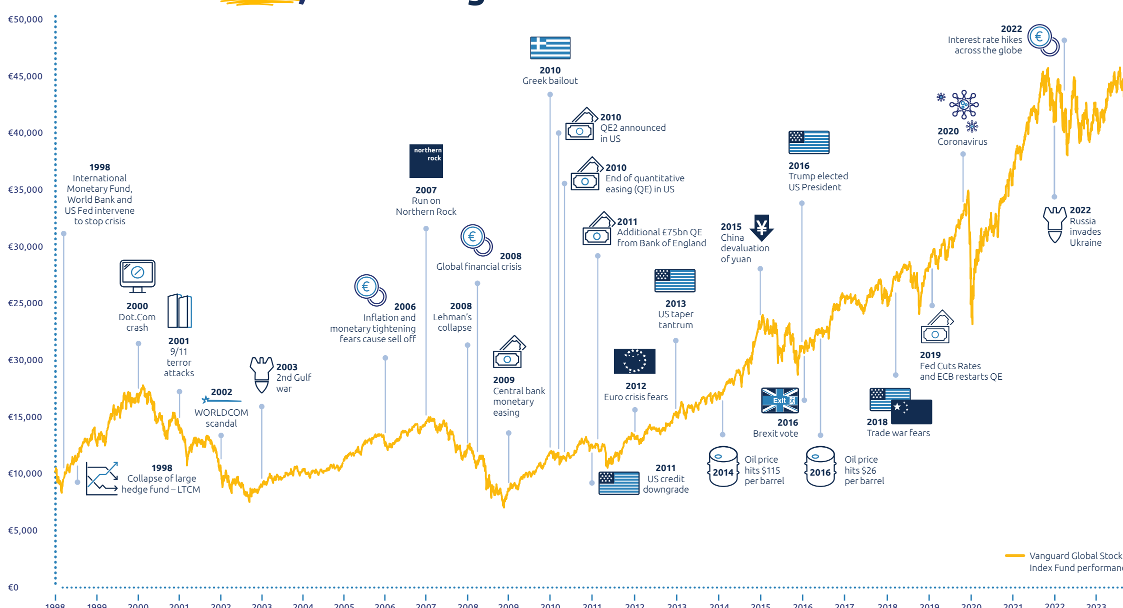


Warning: An investment in this fund may be affected by changes in currency exchange rates.

Warning: If you invest in this fund you may lose some or all of the money you invest.

Warning: Past performance is not a reliable guide to future performance.

Warning: The value of an investment in this fund may go down as well as up.

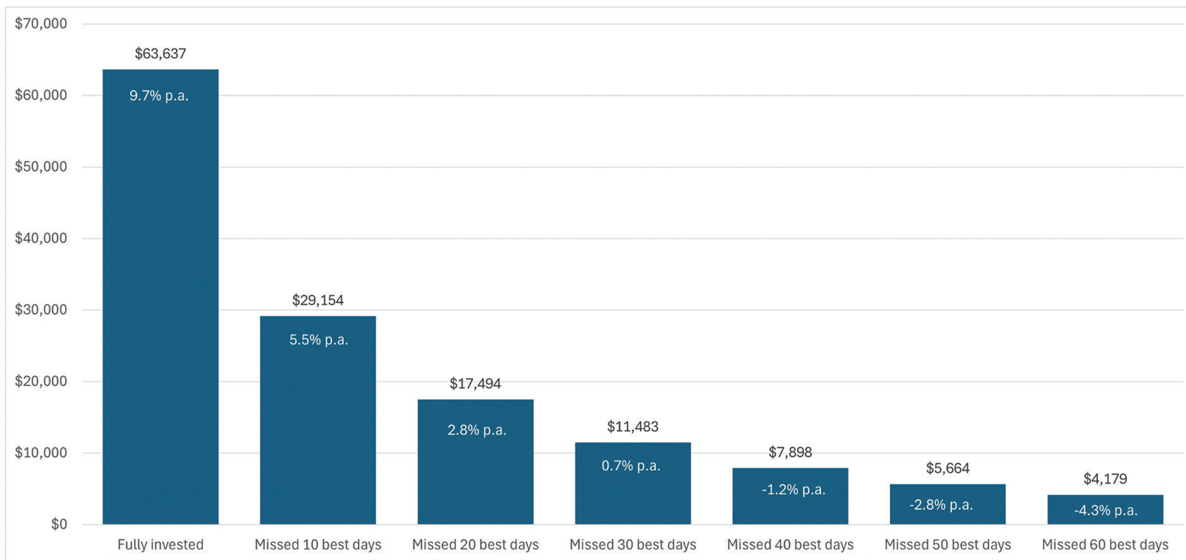
This document does not constitute advice. A decision to invest should not be based on the information in it. Please talk to your financial adviser if you need more information.

Source: FE Analytics. Vanguard Global Stock Index Fund, performance from 12 August 1998 to 31 December 2023.

Performance is net of annual management charge, gross of taxes and adviser charges. The return achieved by individual policies may be lower due to these charges.

Performance of the S&P500: Missing the best days

Annualised performance of a $10,000 investment from 1 January 2004 to 29 December 2023



Source: JP Morgan, Guide to Retirement 2024

happened within 15 days of the 10 worst days. Six of the seven best days occurred after the worst days. The second worst day of 2020 – March 12 – was immediately followed by the second-best day of the year. The bottom line is, stay invested and don't try to time markets. **It's all about time in the market, not timing the market.** Selling out of the market after the worst days will likely result in missing the best days that follow.

Invest for the long term

Investing for anything less than five years is not investing, its saving. Investing for the long term allows you to ride out periods of short-term fluctuations and market downturns.

Navigating investment markets requires commitment to time and patience. Volatility, though daunting, is a necessary companion to achieving investment success. Our "It's all about time, not timing" chart serves as a reminder that trying to time markets is futile. History has shown time and time again that markets have a remarkable capacity to recover, rewarding those that are committed to investing for the long term. Investment success is measured in years and decades, and not days, weeks, and months.

If you'd like a copy of the "It's all about time, not timing chart", please get in touch with your Standard Life Business Manager.

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Standard Life would like to wish the Irish Broker congratulations on four successful decades in business, and thank them for being a reliable, leading source for our industry through the ups and downs.

Insurance Ireland welcomes Delaney judgment and says it is positive for the Insurance Reform Agenda

Insurance Ireland welcomes the recent judgment by the Supreme Court which challenged the constitutionality of the Personal Injuries Guidelines.

Moyagh Murdock, CEO, Insurance Ireland, said "*This is a very welcome outcome for consumers with the veracity of the Personal Injuries Guidelines upheld, which has been the most important piece of the Government's Insurance Reform Agenda in seeking to bring down the high cost of personal injury awards in Ireland. We particularly welcome the clear indication by the court that the guidelines can only be departed from where there is no reasonable proportion between the guidelines and the damages award that should be made.*

The judgment is very comprehensive and we will consider the findings in depth over the coming days. However, it will bring much needed certainty to the market and claimants can take comfort that their claims will be dealt with fairly and more expediently through the Injuries Resolution Board (IRB) instead of going through a lengthy litigation process. The recent Central Bank report the NCID report on the Employers and Public Liability (EL & PL) showed that only 12% of claims were being dealt with by the IRB. Today's judgment should have a positive impact on reducing the significant volume (73%) and ultimately should also reduce the hefty legal costs associated with litigated claims.

While it is too early in the process to see the full impact of today's judgment, it is safe to say it should encourage new entrants into the market which would be very welcome especially in the Employers and Public Liability (EL & PL) market, for business and consumers alike.

The outcome of today's judgment underpins the work of the Government and is a key enabler for the actions in the Agenda for Insurance Reform."