Time in the market remains superior to timing the market

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Gone are the days when the effects of Brexit and load-shedding made for the most prominent watercooler conversations. Welcome the COVID-19 media era, where 'watercooler conversations' happen online, and crisis and fear-gripping headlines are the new order of the day. Indeed, we live in remarkable times where a new chapter in history is unfolding before our eyes, bringing with it a unique set of challenges.

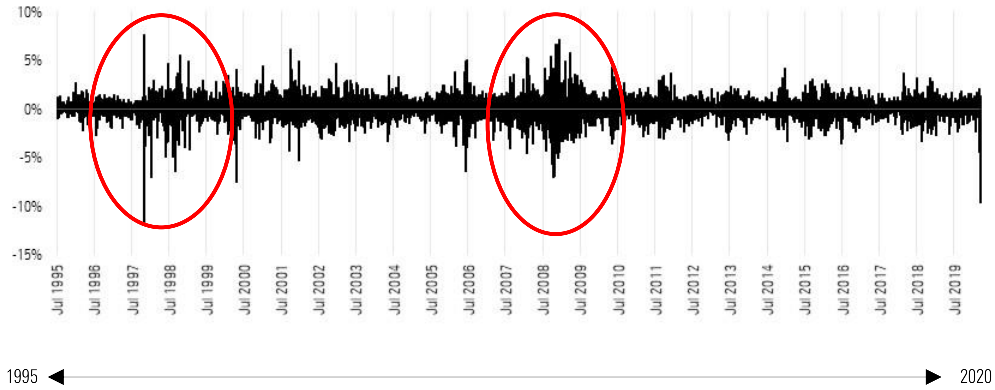
Two topics that have gripped the local media of late (and rightly so) are, of course, the reaction of the markets to the (what would seem endless) ripple effect of the Coronavirus as well as the floundering oil price.

Markets keep moving up and down, and so too do investor's emotions. This is understandable – it is, after all, our hard-earned money we're talking about. It's only natural that many investors have now grown tired of stomaching this unpredictable rollercoaster ride and would much rather prefer to place their feet on solid ground. In the world of investments, the rollercoaster ride is equities and cash is seen as the solid ground.

During volatile times, people find comfort in cash – a natural reaction – even if (more often than not) it is detrimental, as investors panic-sell assets to raise cash after a period of losses. To steal from Warren Buffett, we want to "be greedy when others are fearful and fearful when others are greedy".

What should investors do?

The problem is – we have no idea when stocks will bottom or if more of these types of events might occur. Maybe stocks will bottom today? Maybe it will happen in a week…or a year. Who knows? It is going to come to a halt at some point. Will you invest at the absolute bottom? Not unless you're ridiculously lucky. But the point remains that the bigger the losses the higher the expected returns and, unfortunately, the biggest up days are normally very close to the largest down days.

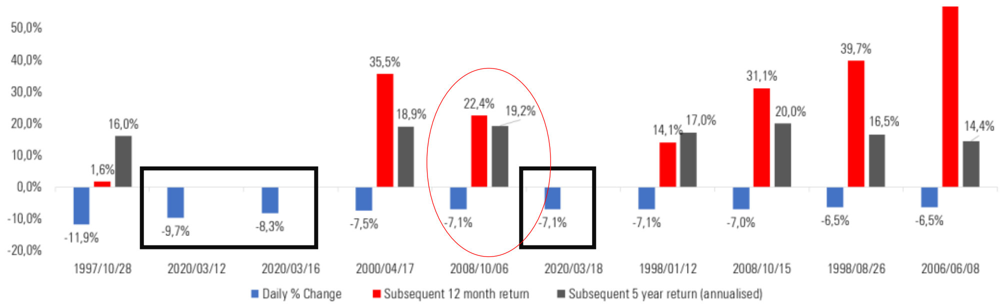


Source: Morningstar Direct

The graph above – showing the daily moves in the South African equity market – illustrates exactly this point. The biggest up days normally follow some of the largest negative days. The circles above indicate some of the highest up days on the market. The first circle was after the emerging market crisis and the second circle was during the 2008 global financial market crisis – both events also having some of the biggest negative days in the history of the South African equity market.

South African equities have experienced four of the largest one-day losses over the last couple of weeks. The following graph shows the 10 worst days on the JSE (the blue bars) since the end of June 1995 and how the local market reacted after the drawdown. The red bars show the 12-month returns investors experienced after the worst day and the grey bars show the five-year annualised returns after the drawdown.

As an example, during the 2008 global financial crisis on 06/10/2008, there was a loss of -7.12% for the day but the subsequent one-year return amounted to 22.41% and the annualised five-year return was 19.24%.



Source: Morningstar Direct

So, where to from here, following the severe sell-off that we have seen in markets and in this case, no one has been spared. It feels like an awful time to buy equities. This brings us to a crucial aspect of wealth creation and preservation – we need to be a step ahead of our own emotions. Ultimately, we are dealing with our own 'animal spirits' when we invest – a concept famously referred to by the legendary economist John Maynard Keynes. So yes, cash may feel like the best place in the darkest moments (many people use the term "cash is king"), but it is a poor choice when considered as a long-term pursuit.

Remember: *time in the market* is superior to *timing the market*.

At this stage, the best thing investors can do is to remain patient. Investing in the equity market is a long-term pursuit and is best used to reach long-term goals such as retirement. As the saying goes – a river cuts through a rock, not because if its power, but its persistence.

While noise and speculation can act as an emotional rollercoaster, your goals are unlikely to have materially changed and, therefore, your plan shouldn't either. This is where we need to be balanced. A big part of wealth creation is avoiding the biggest mistakes and disinvesting into cash now is one of the most well-known actions to avoid.

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