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Picking the Best Time to Invest

Prepared by: Affin Hwang Asset Management

Since the start of the market rout in mid-March when benchmark gauges worldwide plunged due to pandemic fears over COVID-19, investors are probably wondering if it's a good time to invest. A sea of red across equity markets certainly has attracted the attention of bargain hunters looking to scoop up stocks that are trading at a discount to their premium.

However, the vagaries of market timing can make it challenging for investors trying to pick the bottom. For instance since the MSCI World Index plummeted by -31.7% in mid-March, the index has since climbed back to -15.9% (as at 22 April) delivering a 15.8% recovery.

Similarly the MSCI Asia ex-Japan index recouped back gains of +12.9% buoyed by stimulus hopes as central banks eased monetary policy. Locally, the FTSE KLCI Index rebounded from its recent lows and eked a gain of +11.0%. The biggest question of course is whether these gains are sustainable or it is just a dead cat bounce. The reality is that there are too many market variables to know for sure; and what's more, we are in uncharted territory. The world has never seen an economic shutdown in such a scale before due to a pandemic.

It is likely that the economy is already in a recession as a result of this clampdown on business activity and consumption. The depth and length of this economic slowdown still unclear given the many variables at hand.

But what is absolutely certain is that volatility is poised to persist.

So What Should Investors Do?

Keeping perspective for one. It may seem like uncertain times, but this isn't the first time that stock markets have gone through a recession before. History shows that every bull market cycle ends at a higher point than the previous one by subsequently recovering and notching higher gains.

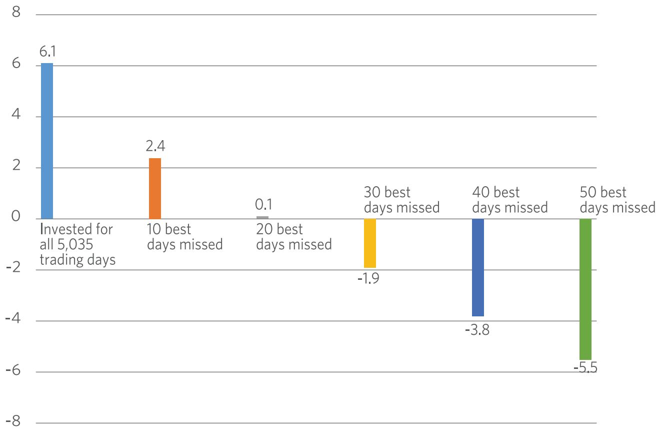
Gains during expansionary periods have also far outpaced losses suffered during a downturn. As such, it is important that investors remain disciplined and stay on track towards achieving their investment goals. Adopting a long-term approach and staying diversified is important in this regard to weather the turbulence ahead.

More defensive asset classes such as fixed income tend to hold up better compared to equities during periods of market stress. But that does not mean investors should overlook equities completely. The stock market will eventually recover and it is important that investors stay invested to be in a position to capture that rebound. Similar to sell-offs, market gains often occur in short bursts at high velocity. Timing precisely for such moments require more than a stroke of luck and is highly unlikely.

As can be seen in Graph 1 below, missing out on the best days in stock markets can significantly undermine an investor's long-term financial success.

Graph 1: The Cost of Market Timing

The Risk of Missing the Best Days in Market, 2000 – 2019



Source: Morningstar, 2020

According to research by Morningstar, investors who stayed in the market for all 5,035 trading days achieved a compound annual return of 6.1%. However, that same investment would have returned 2.4% had it missed only the 10 best days of stock returns.

Further, missing the 50 best days would have produced a loss of 5.5%. Although the market has exhibited tremendous volatility on a daily basis, over the long term, stock investors who stayed the course were rewarded accordingly.

This underscores the perils of market timing that could lead to significant opportunity loss.

The appeal of market-timing is obvious by avoiding periods of poor performance to improve portfolio returns. But the truth is timing the market consistently is extremely difficult that even the savviest investor can get wrong.

As aptly put, history does not repeat itself, but it often rhymes. The COVID-19 pandemic may be unprecedented with little clarity yet on outlook, but some of the strongest rebound often occur when the market is at its most bearish.

The ideal approach to invest in such a period then is by **staying disciplined and investing consistently** by sticking to a regular investment plan to ease one's way into the market. Over the long-term, this would reduce the impact of volatility by spreading out your investments over periodic time intervals by dollar cost averaging. This ensures that one do not buy at inflated prices as well as seize the opportunity to acquire more units at lower prices.

Best Time For You, Not The Market

Instead of looking outward and trying to time the market, investors should turn inward to decide when the best time for them to invest is.

An easy way for investors to do so is by asking themselves basic financial questions such as:-

- Do I have enough in my emergency savings to cover necessities?
- What about future commitments and liquidity needs?
- Can I take a long-term view on my investments?

The global economy is undoubtedly in a fragile state as businesses grapple with closures due to nationwide lockdowns to stem the spread of the coronavirus. With companies embarking on cost-cutting measures, the likelihood of pay-cuts, redundancies and job losses is inevitable.

That is why the importance of having enough in emergency savings cannot be emphasised enough. A rule-of-thumb is that one should have at least 3-6 months' worth of living expenses in a rainy day fund for precisely in times like these.

Similarly, investors should also look at their time horizon and liquidity needs. Do you require cash to pay any outstanding debt or expenses in the near future? Also, can you afford to hold your investments without withdrawing for at least 3 years?

These are important points because no investment can churn out returns overnight. Patience is needed for investment success and history has proven to be kind to investors who do sit through market cycles and stay invested.

There is no such thing as the best time to invest. Rather, investors should stop fixating on what the market is doing and instead focus on developing a plan that fits their needs by taking into account their finances, investment horizon and risk appetite.

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