The Cost of Timing the Market

It’s time in the market, not timing the market. Think about this: $10,000 invested in the S&P 500 at the beginning of 2000 would have grown to $32,527 over 20 years — an average return of 6.07% per year.

Missing the ‘top’ days can be costly

If the market were to rebound suddenly, missing even a few trading days could potentially reduce long-term returns. As illustrated in the following chart, this effect is compounded by missing any of the “top” days, where the market has its biggest gains in terms of performance. There were 5,036 trading days during the 20-year period from January 1, 2000 - December 31, 2019, yet missing only 10 of them would have reduced an investor’s return by 50%.

Source: Legg Mason.
Past performance is no guarantee of future results. These charts and references are for illustrative purposes only and do not represent an actual investment or the performance of any specific investment. The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Dividends are subject to reinvestment.
The sobering lesson

Even though market returns may vary tremendously, rebounds can happen quickly and unexpectedly. Increased market volatility can also make market timing more challenging, since ups and downs may come closer together. History has shown that pulling money out of the market in down periods may reduce long-term returns, as markets have been up more often than not. In fact, average returns for the S&P 500 were positive 76% of the time in the period from 1937 to 2019.


- 20 Negative years
  - For an average negative return of -12.2%
- 24
- 63 Positive years
  - For an average positive return of 19.6%
- 76
- 10.4% average annual return: 1937—2019

Source: Legg Mason. Returns prior to 1957 are representative of the S&P 90 Index, a value-weighted index based on 90 stocks. Performance shown reflects the effects of dividend reinvestment. This chart is for illustrative purposes only and does not represent actual performance, past or future, of any investment. Past performance is no guarantee of future results. The S&P 500 Index (S&P 500) is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. Performance does not reflect the impact of fees and expenses. Investors cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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