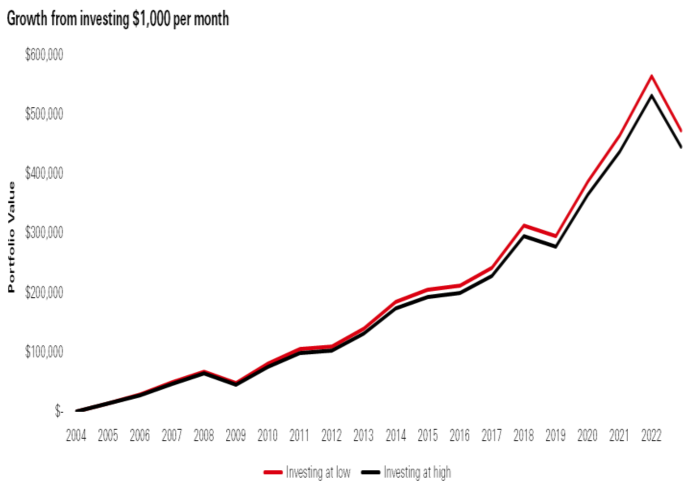
“Time in”, but not “timing the market”

Most investors want to time the market in the hope that they can buy low and sell high to maximise investment returns. However, in reality, nobody can predict the best time to invest. While history can’t tell you when these periods will occur, it does show that financial markets eventually recover from even the most turbulent times. The ability to ride out short-term fluctuations and stay invested for the longer term tends to bring positive returns over time.

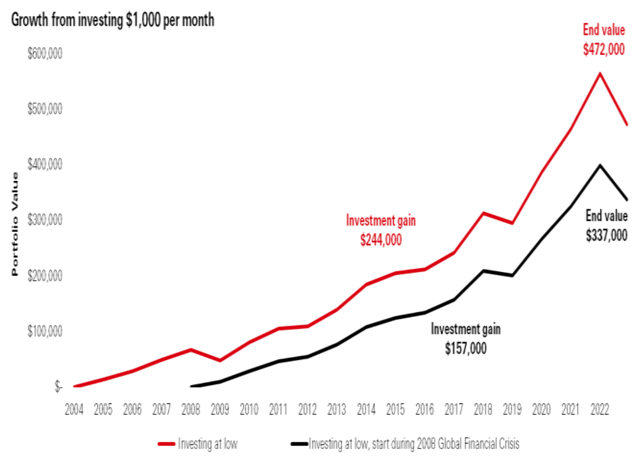
Investors who try to time the market aim to outperform by looking for the lowest or highest point in the market cycle. On the other hand, those who spend “time in the market” are investors who focus on the fundamentals of the investment and hold it for the longer term. If you prefer investing to speculating, you should avoid trying to time the market!

Time in, not timing: the power of compounding

Chart 1 shows what happened to $1,000 invested in global stocks at the monthly low or high, every month since January 2004. Whether investing at the monthly low or high, it does not create a significant difference in the end value.



Past performance is no guarantee of future returns.
Source: Bloomberg, HSBC Asset Management. Investing = MSCI AWCI Net Return Index, 1 January 2004 to 31 December 2022.



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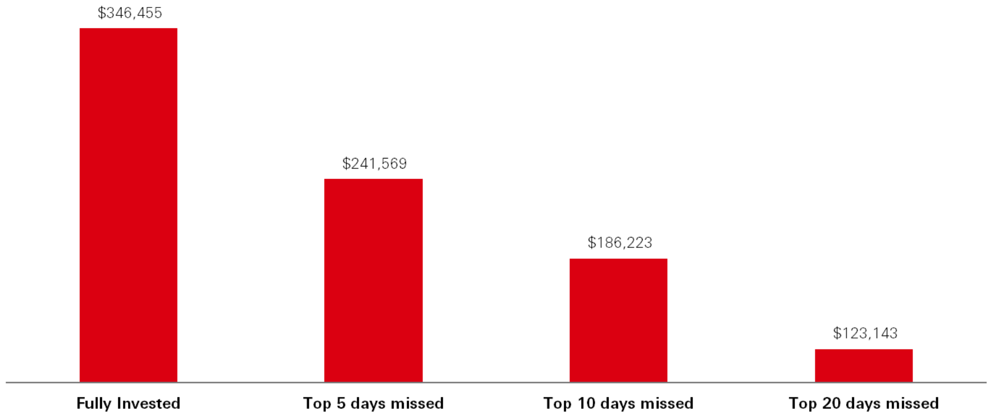
Source: Bloomberg, HSBC Asset Management. Investing = MSCI AWCI Net Return Index, 1 January 2004 to 31 December 2022.

In Chart 2, the black line represents an investor who waited for a big market drop before starting to invest. Even though this investor had impeccable timing to not only invest at the market’s monthly low, but started investing during a market crash when asset values were particularly low, the outcome was much worse. Starting earlier (red line) meant that investing $48,000 more over this time created an extra $135,000 in the end value, leveraging the power of compounding.

If your aim is to grow your savings over the long term, starting to invest sooner, rather than later, is usually more important than whether you are investing at low or high points in financial markets. The longer the investment period, the greater the compounding or snowball effect. Reinvesting your earnings allows your original investment to continue growing along with the money generated by your investment.

Moreover, in trying to time the market, you run the risk of missing out on some of the best performing days. Even missing just a few of those best performing days can result in a big difference in your return.

Chart 3 shows $100,000 invested in stocks since 2005. Missing the top 20 days reduced the end investment value from around $350,000 to $120,000.



Past performance is no guarantee of future returns.
Source: Bloomberg, HSBC Asset Management. Returns are for developed market stocks - MSCI World Daily Total Return Gross World Index, as at January 2023.

If you are nervous about investing a lump sum, you can split the amount and make regular investments. Regular investing helps smooth out the effects and fear of market movements. More shares are purchased when prices are lower, and less shares are purchased when prices are higher**.** This approach can help you stay with an investment plan by reducing the impact of short-term market movements on your portfolio.