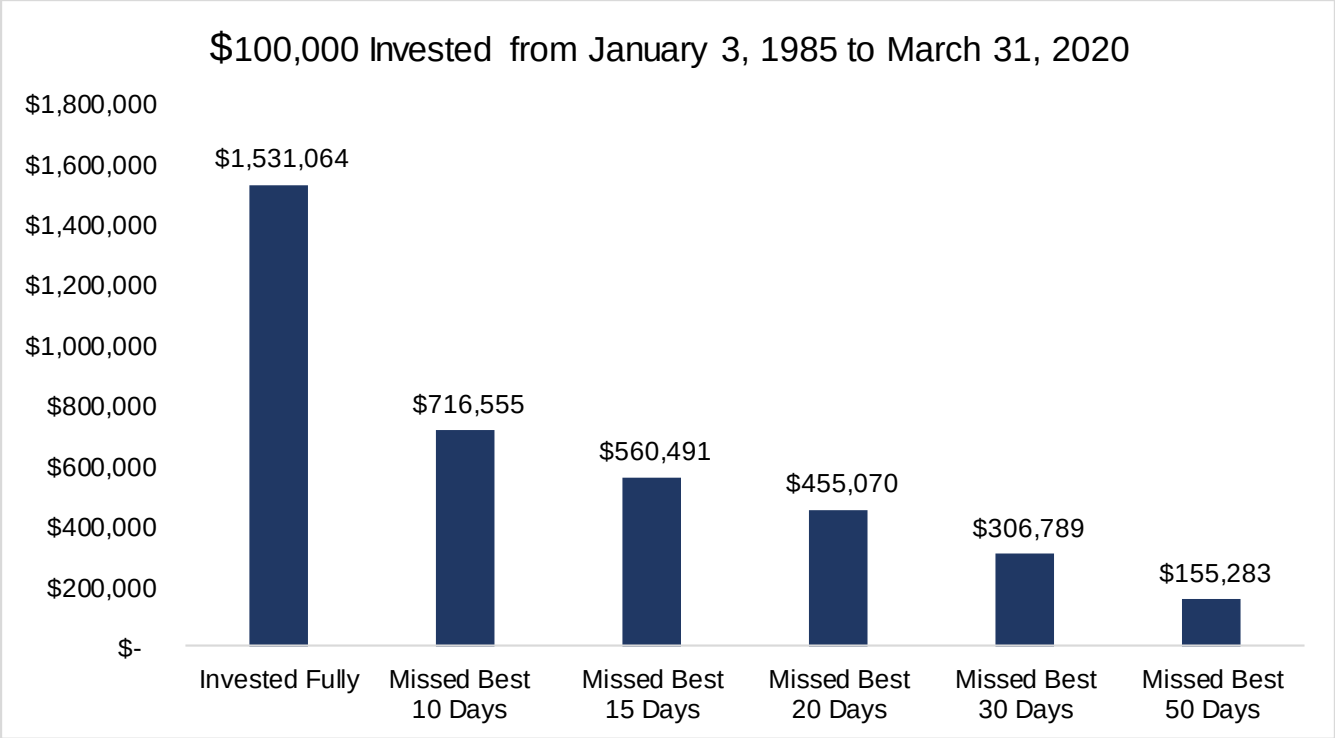
The Risk of Missing the Market's Upward Spikes

Independent Accountants' Investment Counsel Inc.™

Market timing - the topic comes up most often when the markets fall precipitously. Understandably, many investors become nervous when they see the value of their investments begin to tumble downward – and some "want out." They want to let the markets reach the bottom and then invest back in. This approach sounds good but how do you determine when to get out and when to get back in?

One of the problems with market timing is that the market tends to spike upward quickly, often in a single day. If you miss out on those spikes, you can severely damage your long-term investment returns.

This chart illustrates the point. If you had invested $100,000 back at the start of 1985 in the TSX/S&P Composite Index, it would have increased in value to $1,531,064 by March 31, 2020. But what if you'd tried to market time, pulling money in and out of the market and missed only the 10 best days of the markets over that 35-year period? Your $100,000 investment would be worth only $716,555. And if you'd missed out on the market's 50 best days, your investment would have increased to only $155,283.



Source: Factset. S&P/TSX Composite Index total return from January 3, 1985 to March 31, 2020. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

And when are those "best days?" In the last 35 years, each of the top 20 best days for the TSX/S&P Composite Index occurred in the midst of the October 1987 crash, the early 2000's tech bubble, the 2008 financial crisis or the 2020 virus outbreak crisis.

Now hopefully when you were market timing you also missed out on the some of the "bad" days, too, but you see the point – it is incredibly costly to miss out on the market's best days.

That's one of the reasons we at IAIC adopt a disciplined, diversified buy-and-hold investment approach, customized to your financial goals and risk tolerance and capacity. We want you to benefit from the market's best days, which most often occur in periods of volatile markets.