Sometimes doing nothing is doing something
Time in the market or timing the market

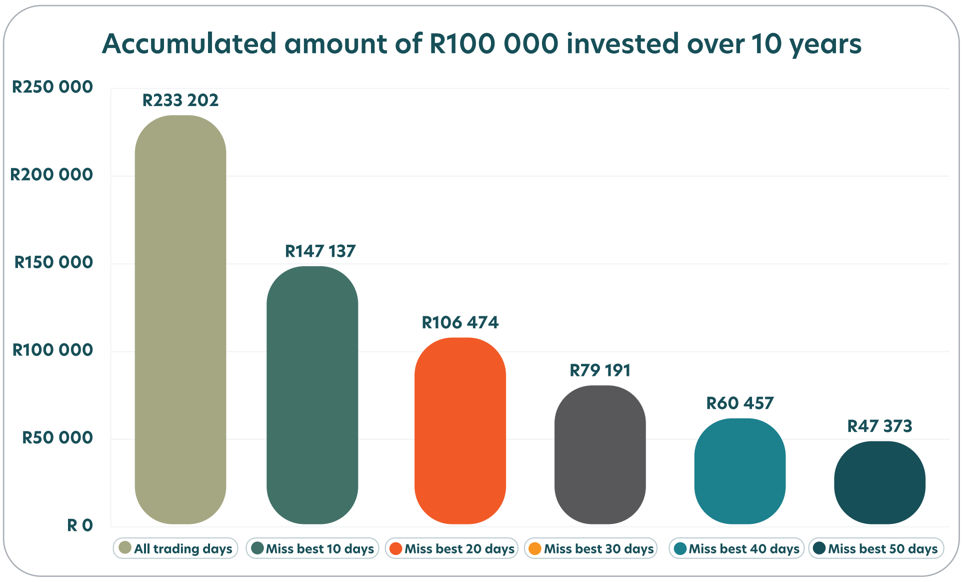
December 2024

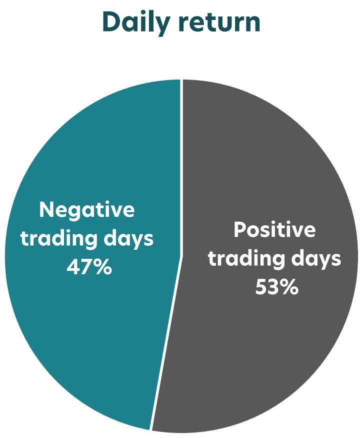
Thomas Robert Dewar, a Scottish whisky distiller from the 1800s, coined the phrase 'sometimes doing nothing is doing something'. While Mr Dewar was referring to the whisky ageing process where the unique flavour is developed, the phrase also applies to investments.

Investors' emotions see-saw when markets go down. Their emotions could drive impulsive investment decisions that ultimately, like the event that sparked them, end in undesirable outcomes. When markets crash, feelings of doubt and uncertainty intensify, and investors scramble to protect their hard-earned savings. This is when you see investors rushing to cash in their investments or to change their investment strategies with cash being the preferred destination.

But what if their actions are mis-timed, or market conditions improve and investors unintentionally miss one, two or ten of the best days in the market? What impact would this have on their investment over time? Historically, we've seen the markets recover significantly following drastic downturns. In fact, they often go on to post inflation-beating performance returns.

Let's use an example. The chart below is based on the South African stock market, represented by the FTSE/JSE All Share Index from 1 January 2015 to 31 December 2024 (10 years). It shows the impact on investments when investors try to time the market and, in the process, miss some of the market's best-performing days.





Source: Alexander Forbes Investments and Bloomberg

Despite experiencing tough periods where financial markets decreased in value along with her savings, Investor 1 decided to stick with her investment strategy, which was designed to help her reach her goals over the long term. The R 100 000 she kept invested over the 10-year period grew to R233 202.

Unlike Investor 1, Investor 2 decided to change his investment strategy during times when financial markets were unstable over the 10-year period, opting to invest into cash and other conservative investments that seemed like a good idea at the time. These decisions resulted in Investor 2 missing the 10 best trading days when financial markets experienced a recovery. The R100 000 he invested over the 10-year period only grew to R147 137.

Investor 1's investment earned significantly more than what Investor 2's investment gained. This is because Investor 2 missed the 10 best trading days by either trying to time the market or being out of the market completely.

Even more extraordinary is that if Investor 2 had missed the 30 best days in the market, his investment would only be worth R79 191 – less than the amount (R100 000) he invested 10 years ago. It goes to show that time spent invested in the market is much more important than timing the market.

The moral of this investment story is much the same as Mr Dewar's philosophy for making whisky. Changing an investment strategy that is designed with the long term in mind because of short-term volatility often ends in missed opportunities or even losses. If you stick to your long-term investment plan and do nothing when others are prematurely opening the proverbial cask of whisky, your retirement years could very well be spent savouring a perfectly matured single malt.

Before you make any changes to your savings and investments, make sure that you have relevant information, understand your options and have asked for help from an adviser if you need it.

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