Long-term perspectives

Stock market: The cost of timing the market

Wealth Management
Dominion Securities

Navigating equity market corrections requires patience. Given the potential cost of missing periods of strong returns, we think the more suitable course of action for most investors is to remain disciplined and invested.

Corrections are normal

Equity market downturns are always tough for investors to endure, but they are a normal part of investing in stocks. Since 1928, the S&P 500 Index has encountered 27 bear markets—defined as declines of 20% or more—and just over 100 corrections of 10% declines or more. On average, this means investors should expect a bear market once roughly every four years and a correction once roughly every year.

Maintaining discipline is crucial

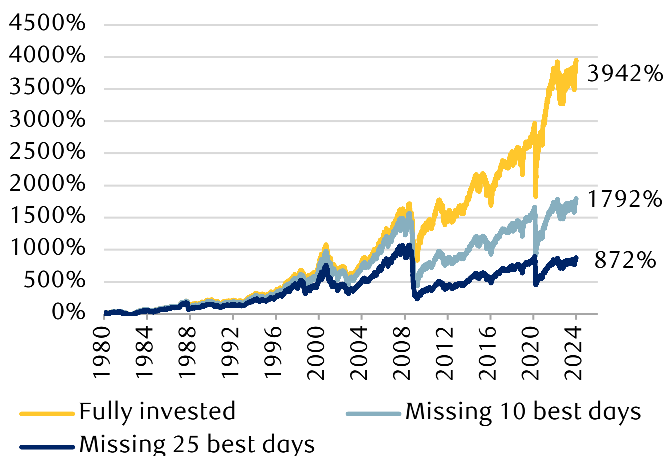
Market corrections tend to set off emotional responses and test the mettle of investors. When volatility increases, it is natural to believe that it might continue and/or that something should be done. But for those that have a well-devised investment plan, we believe resisting the impulse to deviate from the long-term plan is important during the inevitable "cold stretches" in equity markets.

Time in the market matters more

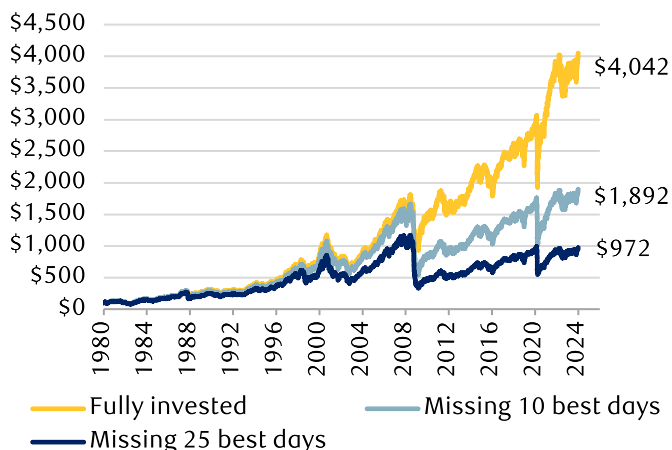
Precisely timing the market peaks and troughs demands three conditions: *avoid selling as the market continues to move higher; sell at the top; and time the re-entry at the bottom*. The possibility of consistently fulfilling all three conditions across multiple market cycles is extremely low, in our opinion, especially when considering that historically the market's best days have often followed the sharpest drops. The charts illustrate how much mistiming the market, even by just 10 days, can negatively impact an investor's outcome. The more suitable approach, in our view, is to stay disciplined and invested, which can help keep investors on the trajectory towards achieving their long-term financial objectives.

Invest for the good days rather than trying to avoid the inevitable bad days

S&P/TSX Composite: Cumulative returns since Jan. 1, 1980



S&P/TSX Composite: Growth of $100 invested Jan. 1, 1980



Source - RBC Wealth Management, Bloomberg; data through 12/31/23. Returns calculated based on the S&P/TSX Composite Total Return Index.

For important disclosures and authors' contact information, see page 2.

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