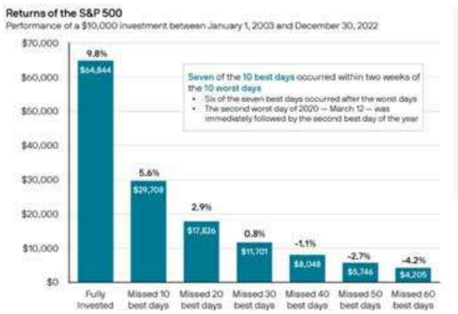
Don't Miss the Best Days

BY ERIK FORD



As hard as it may be for the individual investor to do nothing, it may be the act that contributes the most to long-term investment performance. When markets are volatile and we see our investments experience sharp declines, we may feel we must do something, and more often than not, that something will be to our detriment.

Let us take a few days in late April 2024, as an example. From the close on April 24th, the S&P 500 index opened down 1.02% on April 25th. From there it hit a low of being down 1.6%, before closing down 0.46% from the previous day's close. If you listened to the financial press (which may in itself be a mistake), this was the beginning of a market crisis. The long overdue correction was upon us. What happened the next day, April 26th? The index opened up 0.65%, reached a high of 1.31% above the previous day's close, and finished up 1.02% for the day and 0.65% above the close on April 24th.These percentages may seem small, but keep in mind that long-term experience and future expectation for the S&P 500 return is in the high single digit range.

The point of this is that making a move in panic may well work against your long-term performance as moving some or all of your investments out of the market on a sharp downturn may result in missing out on the following recovery. See the accompanying chart below from JP Morgan Asset Management that compares historic returns of being fully invested in the S&P 500 versus missing the best single days of performance.

You see that by missing the ten best days over a twenty-year period, your ending portfolio value would be less than half of that if you stayed fully invested. The best days very frequently come within a few days of the worse days, so reacting to a sharp down day or days by pulling out of the market may very well lead to missing one of those best days that make all the difference over time. According to Ned Davis Research, over the 30 years, half of the best days occurred during a bear market. In the words of that sage philosopher for the ages, Winnie the Pooh, "Never underestimate the value of doing nothing".

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The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.