Market Timing and Interest Rate Projecting: Playing a Losing Game

Over the past few weeks, I have received several calls regarding recent market volatility and whether now is the time to sell or even the time to buy. My response to these calls is consistent: trying to time the market as to the best time to buy or sell stocks is a losing proposition. Even if one is correct at any point in time, chances are great that the timing is by pure luck.

I am strongly opposed to attempting any timing strategy because nobody has a crystal ball. The stock market comprises millions of global investors all of whom receive critical information and process it in complex ways. Interpretation of the resulting stock prices can make little if any sense. An investment strategy based on forecasting how global investors will react to incoming information is like shooting in the dark at a moving target.

To make matters worse, new information continually arrives randomly to the market in large batches. By the time one piece of information arrives, the game changes the next nanosecond. Incoming news is never consistent. Some of it is positive and some is negative. Trying to make sense out of all this noise is a crapshoot.

A word to the wise: attempting to time the market is a foolish strategy and should be approached with great caution with money considered "play". Be equally careful of anyone trying to convince you they can implement such a fool-hearted strategy on your behalf. If that were true, why would a timing expert not implement the strategy just for himself/herself?

So-called timing experts prey on the unsuspected by presenting sophisticated charts showing a market trend one-way or the other. They may also present convincing data detailing how accurate their methodology has been in the past and, therefore, will produce similar success going forward. These marketing gimmicks are as old as the stock market. Anyone can make a graph or create a methodology showing success after-the-fact. Nobody can do it before-the-fact.

Prominent scholars call those who think someone somewhere knows everything happening in the market the "smartest man in the world" syndrome. The truth is that such a person does not exist.

Discipline is the key to being a successful investor. Discipline means adopting a solid strategy based not on what one thinks the market will do but, instead, on what risks one can assume. Here is where a few basic rules come in very handy. One is to look long-term. Another is to consider the consequences of losing any or part of the initial investment. A final rule is to consider the well-being of others who depend on you for financial support.

Not everyone has the discipline to apply these basic rules and even those who do lack the technical knowledge of how the market works, how the different securities trade, and how to construct a well-diversified portfolio. It is important to work with a financial adviser who understands these rules and can apply them without prejudice.

Because I am not emotionally tied to your money and because I have the proper training and experience, I work on your behalf to negotiate the myriad obstacles that lie in your path when pursuing your financial objectives. Thank you for allowing me to do this.

Timing also includes another important factor: actions of the Federal Reserve Board. Some people mistakenly believe the Fed is intentionally trying to tank the stock market. The short response to this belief is a resounding no. The longer response is that the Fed has a dual mandate to maintain price stability and promote full employment. The way the Fed attempts to accomplish these two goals simultaneously is by manipulating interest rates.

When the economy is at full employment and poised to overheat, which would cause future inflation, the Fed raises interest rates in order to slow things down. Unfortunately, higher interest rates usually hurt the stock market, as we are now seeing.

Promoting the stock market is not one of the Fed's objectives. The stock market is just the recipient of Fed action, an observer on the sidelines. In this role, the market generally hopes for declining interest rates, as we have seen over the past decade. Unfortunately, that cannot continue indefinitely.

The way I just presented Fed policies is correct, but not complete. The Fed's policy on interest rates is much more complex than my explanation, which is why many analysts on Wall Street get paid big bucks to try to predict the Fed's actions. The problem is a lack of accurate, timely data.

Most data we see in the daily newspaper is inaccurate and untimely, only to be revised later. Even when it is not revised, professional economists usually interpret the information differently. Truth be told, nobody knows what the economy is doing until months or even years after the fact. No one or two pieces of data tells the full story.

I hope this message is clear. Market timing is not a strategy; it is nothing more than rank speculation.

All the best,

Ron