



IS MARKET TIMING A PANACEA FOR INVESTOR ANXIETY?

by Terry E. Nager, CFP®, CLU®, ChFC®

The last few weeks has been a period of increased market volatility due to the Iran conflict. Prior to that, the correction that followed the tariff “Liberation Day”, about one year ago, was the last time of heightened volatility. Most investors become complacent as the market reaches new highs over a several year time frame, but when the market is correcting, a small percentage of investors think that they should be in cash during downturns. This approach is termed market timing (being invested when the market is going up and in cash when it is declining). Now, let’s address the question of market timing itself as a panacea.

No. Market timing is not a panacea; evidence suggests it is extremely hard to do well, and even modest errors usually leave investors worse off than staying invested with a disciplined process.

Why Market Timing is So Hard

To add value, a timer must be right not once, but repeatedly on both exits and re-entries, which requires very high forecast accuracy that studies rarely observe in reality.

Research on tactical asset allocation finds that even with very strong forecasting skill, the incremental benefit over a static, effi-

cient allocation is small once costs, taxes, and slippage are included.

A well-known result is that to make market timing pay, an investor would need to correctly call a large fraction of both bull and bear phases (for example, on the order of 70-80% of turns), a bar that is far above what real-world managers achieve.

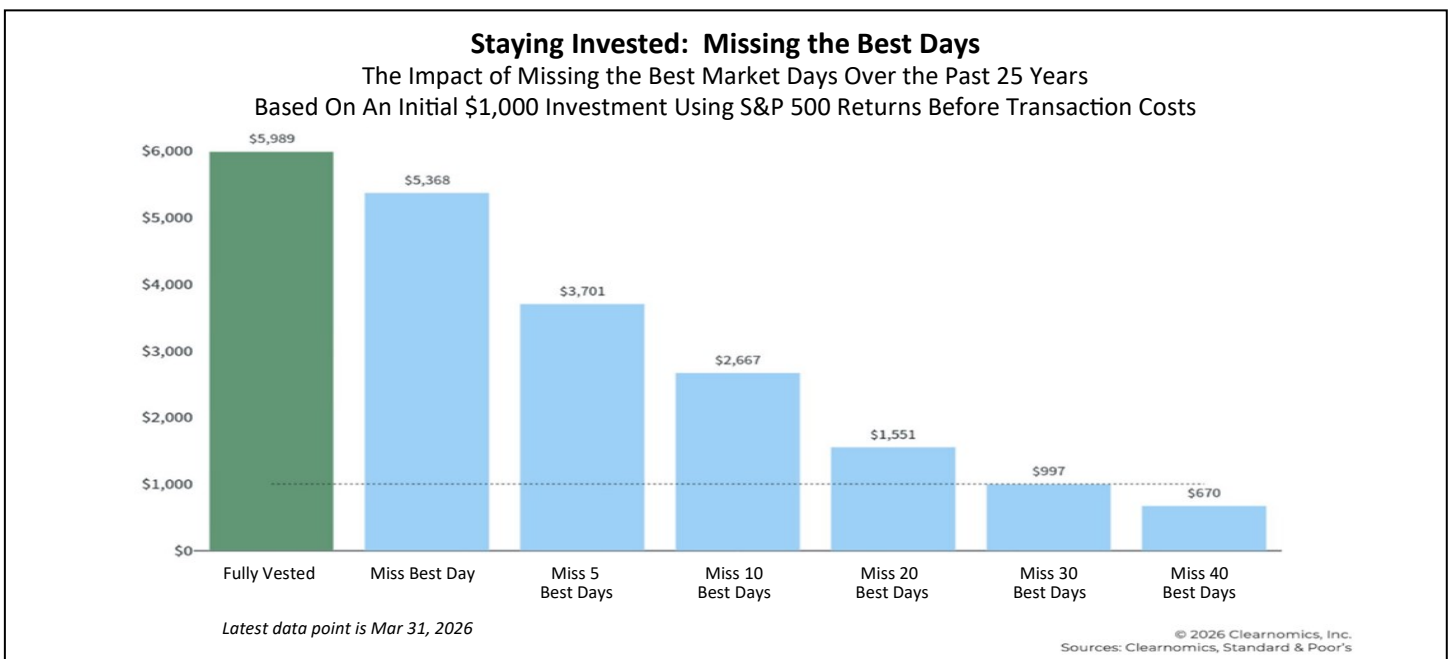
Cost, Behavior, and Missed Upside

Timing demands frequent trading and constant monitoring, which increases explicit costs (commissions, spreads) and often taxes, compared with simple buy-and-hold.

Behavioral evidence shows that investors tend to buy after strength and sell after weakness, so their realized returns lag the underlying market by several percentage points a year, consistent with failed timing attempts.

Missing just a small number of the market’s best days – often clustered around periods of high volatility – has been shown to meaningfully reduce long-term returns, which is exactly the risk timers run when they are out of the market.

Please examine the following graph carefully.



For most investors, time in the market, diversification and periodic rebalancing dominate attempts at short-term timing as drivers of long-run outcomes.

Philosophically, market timing is attractive as an idea of control over uncertainty, but it fails as a panacea because of knowledge limits, randomness, and human biases.

The allure versus the reality

The seductive narrative is: if you could avoid big drawdowns and capture most of the upswings, you would dominate buy-and-hold; that's true in a "what-if" world and is why timing remains so alluring despite the evidence.

So market timing is the opposite of a panacea; it's a response to our discomfort with uncertainty, whereas robust long-horizon investing starts from accepting that uncertainty as a given.

Loss aversion and fear/greed: Losses hurt more than gains feel good, so people try to dodge drawdowns (panic-selling in downturns) and chase rallies (buying

late), which is market timing driven by emotion rather than process.

Success stories of people who "call" 2000, 2008, or 2020 get amplified, while the many failed prophets disappear into the noise, creating a survivorship-biased belief that skillful timers are common.

Structural and emotional reasons it persists

Cash feels safe and action feels responsible; sitting through volatility with a pre-committed allocation feels psychologically like negligence, so attempts to time become a way to reconcile discomfort with risk.

Evidence of timing failure is statistical and abstract, while one vivid avoided loss or successful tactical move is concrete and salient, so the "lived experience" often outweighs the data.

Put differently, timing persists because it aligns with our intuitions about control and prudence, while the optimal strategy – accepting uncertainty, diversifying, and staying the course – runs against those intuitions.

OUTLOOK

The first quarter of 2026 started on a positive note and was generally holding its value until the Iran conflict began. Historically, US stocks usually see a short, shallow drawdown around the outbreak of war, then stabilize and often produce positive returns over the subsequent year. At this point, the market seems to be following the pattern, being down about 5-6% at the end of the first quarter. The major query is: will the historical pattern play out as it has in the past over the next 12 months.

Forecasts and markets still price in continued US growth, with Fed projections showing real GDP around the mid-2% area and unemployment drifting only modestly higher. The Fed is holding rates in the mid-3% range after a long tightening cycle and now signals only one cut in 2026, with growth and inflation both revised slightly higher. Forward research views for 2026-27 see EPS growth around low double digits, helped by AI-driven investment and still-solid demand, but margin pressure from wages and input costs is a key downside risk if nominal growth slows without much rate relief.

All things considered, a modestly positive rest of 2026 is our best appraisal of the present situation. However, if there is a quick resolution of the Iran conflict and oil prices fall more rapidly, we could have a pleasant upside surprise. As always, unforeseen events can change the outlook, as the unforeseen becomes the seen.

Remember to notify us if you have any material changes in your financial circumstances.

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