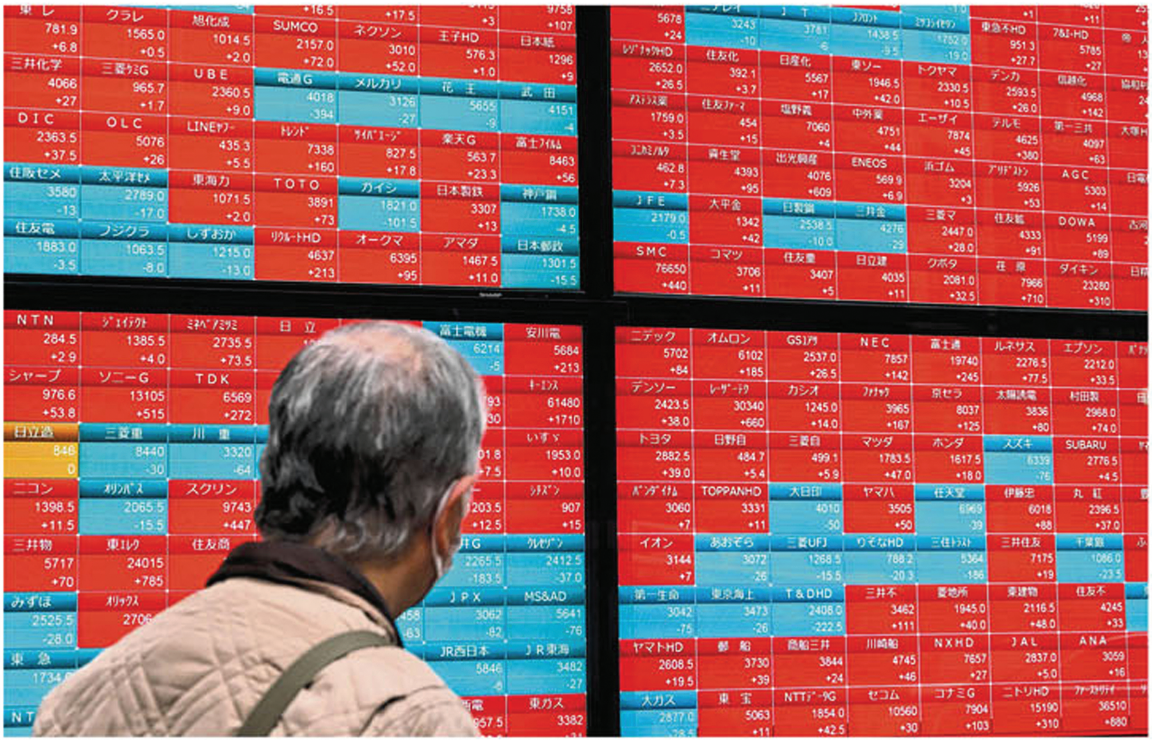
THE BUSINESS TIMES

AN SPH MEDIA LIMITED PUBLICATION | businesstimes.com.sg | fb.com/thebusinesstimes | @BusinessTimes | CO REGN NO 202120748H

In the stock market, don't buy and sell. Just hold

There's new evidence that market timing doesn't work. Your odds of success are better if you just hang on and aim for average returns. BY JEFF SOMMER



Timing the market is, for the vast majority of us, a recipe for losses. It may work some of the time, but it's unlikely to work all of the time. PHOTO: AFP

Striving to be average is probably a wise choice. Just match the market returns; don't try to beat the market by buying and selling at moments that seem like great opportunities. You're likely to hurt yourself. ILLUSTRATION: NYTIMES

SELLING all of your stock just before the market falls, and buying shares just before the market rises, is a brilliant strategy.

If you could really do it, you would have bragging rights among your friends. And if you could repeat the feat over and over again, you would be fabulously rich – a true stock-market wizard.

But the ability to trade like that is rare, if it exists at all. Without question, it's so hard that the vast majority of professional traders can't do it, as countless studies have shown.

I certainly can't. Most of us are better off living with the reality that the stock market moves down as well as up and that we can't beat it. A new study provides fresh evidence of why it makes sense to strive for an absolutely middling return. And the study implies that a simple, unspectacular strategy – buying and holding the entire market through low-cost index funds – is probably the best bet for most people.

Broad range of signals

A blog about the new research begins provocatively. Its title is suggestive: *We Found 30 Timing Strategies That 'Worked' – and 690 That Didn't.*

Most strategies didn't work. That's not surprising. But what about those that did? I wanted to find out. Perhaps they contained the secret to future riches, and I could share it with the world.

Alas, no.

I quickly found that there was no secret, just luck, as the researchers readily acknowledged.

"Eventually, if you flip a coin enough times, somebody will get heads 10 times in a row," Wei Dai, head of investment research at asset management firm Dimensional Fund Advisors, told me from Singapore in a video conversation.

"Flipping a coin is just chance," she said. "The strategies that 'worked' were like that."

Audrey Dong, a senior associate at Dimensional, participated in the research with Dai.

The two analysts came up with a comprehensive, though not exhaustive, array of market-timing strategies – 720 in total, conducted on a variety of stock markets and using a broad range of rigorously applied timing signals.

All of this was a little wonky. They worked carefully and methodically. The signals included several stock valuation measures, market momentum (whether stocks were rising and falling) and whether small or large capitalisation stocks were performing well. The researchers applied these measures to a range of time periods.

The strategy that appeared to work best was conducted in a variety of developed country stock markets outside the United States from 2001 to 2002.

It beat a simple buy-and-hold approach in these markets by an annualised 5.5 per cent, seemingly a remarkable achievement. And it managed to do this with a straightforward method: abandoning stocks and buying safe Treasury bills when the stock markets were overvalued.

As the blog said, in a teasing, celebratory tone: "Thanks to the decision to sit on Treasury bills during market downturns in 2001, 2008 and 2022, the strategy outperformed the buy-and-hold market portfolio."

Curb your enthusiasm

But, the blog quickly added, don't get "too excited". This strategy used extremely specific measures chosen in a computerised "backtest". Alter a single one of them and it no longer outperformed the markets reliably, even retrospectively; it didn't work in multiple markets, and there's no particular reason to assume that it would work dependably in real time now. In fact, there was a flaw in every one of the 720 approaches that the researchers took, including those that seemed superficially superior.

What's more, even if one strategy managed to work for a while, it would be unlikely to remain secret for long. Modern markets are efficient enough that a winning method will be quickly replicated by others and won't be winning for long.

That's one of the core insights of what is known as "passive investing": simply accepting that you can't beat the overall market and focusing instead on minimising your costs so you can get as much market return as possible. Broad, diversified, low-fee index funds – either traditional mutual funds or exchange-traded funds – will do this for you. But you need to be willing and able to withstand substantial losses, sometimes for extended periods, because while the stock market has risen over the long haul, it often declines.

Timing the market is, for the vast majority of us, a recipe for losses. It may work some of the time, but it's unlikely to work all of the time. The problem isn't just knowing when to sell. You also need to know when to get back into the market, and getting both decisions right – selling at a peak and buying at a trough – is rare in any single market cycle. Over decades, it may be impossible.

"This is an eternal topic," Dai noted. "People are always trying to figure out ways of beating the market. But moving in and out of stocks isn't a good way to do it."

Stellar performer

What this Dimensional research didn't investigate was whether picking individual stocks can be a consistently winning strategy. But other studies have demonstrated that successful stock-picking over long periods is also extremely rare.

For instance, a long-running series of reports by S&P Dow Jones Indices have examined the overall performance of stock funds and found them generally to be lacking. Most active fund managers can't beat the market year after year, these reports have shown.

I'd be happier knowing a way of beating the market regularly, of course. I'd rather be a stellar performer, not an average one.

But, as it turns out, striving to be average is probably a wise choice. Just match the market returns; don't try to beat the market by buying and selling at moments that seem like great opportunities. You're likely to hurt yourself.

That's the implication of the Dimensional study and a central message of a classic investing book, *Winning the Loser's Game*, by Charles D Ellis. As in amateur tennis, avoiding errors is likely to improve your performance more than reaching for big winners. Consistency and efficiency – low cost and diversification, in the case of investing – is the best approach for most of us.

This isn't an inspiring message, perhaps. There's no particular glory in merely matching market returns and avoiding dumb unforced errors.

Yet this approach isn't easy either. You need to stay solidly in the middle of the pack and keep your expenses low, while most of Wall Street tempts you with advice on how to get ahead of everybody else.

That advice comes at a substantial cost, however. This latest study, along with much of academic finance, suggests that for most investors, striving to be average is a much better bet. NYTIMES

The opinions expressed herein represent the personal views of the author and not necessarily those of Dimensional Fund Advisors LP or its affiliates, and they are subject to change continually (including due to changes in the law) and without notice of any kind.

The information in this material is intended for the recipient's background information and use only. It is provided in good faith and without any warranty or representation as to accuracy or completeness. Information and opinions presented in this material have been obtained or derived from sources believed by Dimensional to be reliable, and Dimensional has reasonable grounds to believe that all factual information herein is true as at the date of this material. It does not constitute investment advice, a recommendation, or an offer of any services or products for sale and is not intended to provide a sufficient basis on which to make an investment decision. Before acting on any information in this document, you should consider whether it is appropriate for your particular circumstances and, if appropriate, seek professional advice. It is the responsibility of any persons wishing to make a purchase to inform themselves of and observe all applicable laws and regulations. Unauthorized reproduction or transmission of this material is strictly prohibited. Dimensional accepts no responsibility for loss arising from the use of the information contained herein.

This material is not directed at any person in any jurisdiction where the availability of this material is prohibited or would subject Dimensional or its products or services to any registration, licensing, or other such legal requirements within the jurisdiction.

"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., Dimensional Ireland Limited, DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd., Dimensional Japan Ltd. and Dimensional Hong Kong Limited. Dimensional Hong Kong Limited is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

RISKS

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

UNITED STATES

Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

Investment products: • Not FDIC Insured • Not Bank Guaranteed • May Lose Value Dimensional Fund Advisors does not have any bank affiliates.

CANADA

These materials have been prepared by Dimensional Fund Advisors Canada ULC. The other Dimensional entities referenced herein are not registered resident investment fund managers or portfolio managers in Canada.

This material is not intended for Quebec residents.

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise noted, any indicated total rates of return reflect the historical annual compounded total returns, including changes in share or unit value and reinvestment of all dividends or other distributions, and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

AUSTRALIA

This material is issued by DFA Australia Limited (AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, to the extent this material constitutes general financial product advice, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and the target market determination (TMD) that has been made for each financial product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to *dimensional.com/funds* to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

NEW ZEALAND

This material is issued by DFA Australia Limited (incorporated in Australia, AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. This material does not give any recommendation or opinion to acquire any financial product or any financial advice product, and is not financial advice to you or any other person. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and for the Dimensional Wholesale Trusts the target market determination (TMD) that has been made for each financial product or financial advice product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to *dimensional.com/funds* to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

WHERE ISSUED BY DIMENSIONAL IRELAND LIMITED

Issued by Dimensional Ireland Limited (Dimensional Ireland), with registered office 3 Dublin Landings, North Wall Quay, Dublin 1, Ireland. Dimensional Ireland is regulated by the Central Bank of Ireland (Registration No. C185067).

WHERE ISSUED BY DIMENSIONAL FUND ADVISORS LTD.

Issued by Dimensional Fund Advisors Ltd. (Dimensional UK), 20 Triton Street, Regent's Place, London, NW1 3BF. Dimensional UK is authorised and regulated by the Financial Conduct Authority (FCA) - Firm Reference No. 150100.

Dimensional UK and Dimensional Ireland do not give financial advice. You are responsible for deciding whether an investment is suitable for your personal circumstances, and we recommend that a financial adviser helps you with that decision.

Dimensional UK and Dimensional Ireland issue information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from Dimensional UK and Dimensional Ireland will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

NOTICE TO INVESTORS IN SWITZERLAND: This is advertising material.

JAPAN

For Institutional Investors and Registered Financial Instruments Intermediary Service Providers.

This material is deemed to be issued by Dimensional Japan Ltd., which is regulated by the Financial Services Agency of Japan and is registered as a Financial Instruments Firm conducting Investment Management Business and Investment Advisory and Agency Business.

Dimensional Japan Ltd.
Director of Kanto Local Finance Bureau (FIBO) No. 2683
Membership: Japan Investment Advisers Association

SINGAPORE

This material is deemed to be issued by Dimensional Fund Advisors Pte. Ltd., which is regulated by the Monetary Authority of Singapore and holds a capital markets services license for fund management.

This advertisement has not been reviewed by the Monetary Authority of Singapore and should not be shown to prospective retail investors.

FOR PROFESSIONAL INVESTORS IN HONG KONG

This material is deemed to be issued by Dimensional Hong Kong Limited (CE No. BJE760) ("Dimensional Hong Kong"), which is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

This material should only be provided to "professional investors" (as defined in the Securities and Futures Ordinance [Chapter 571 of the Laws of Hong Kong] and its subsidiary legislation) and is not for use with the public. This material is not intended to constitute and does not constitute marketing of the services of Dimensional Hong Kong or its affiliates to the public of Hong Kong. When provided to prospective investors, this material forms part of, and must be provided together with, applicable fund offering materials. This material must not be provided to prospective investors on a standalone basis. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice.

Neither Dimensional Hong Kong nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors. Financial advisors in Hong Kong shall not actively market the services of Dimensional Hong Kong or its affiliates to the Hong Kong public.