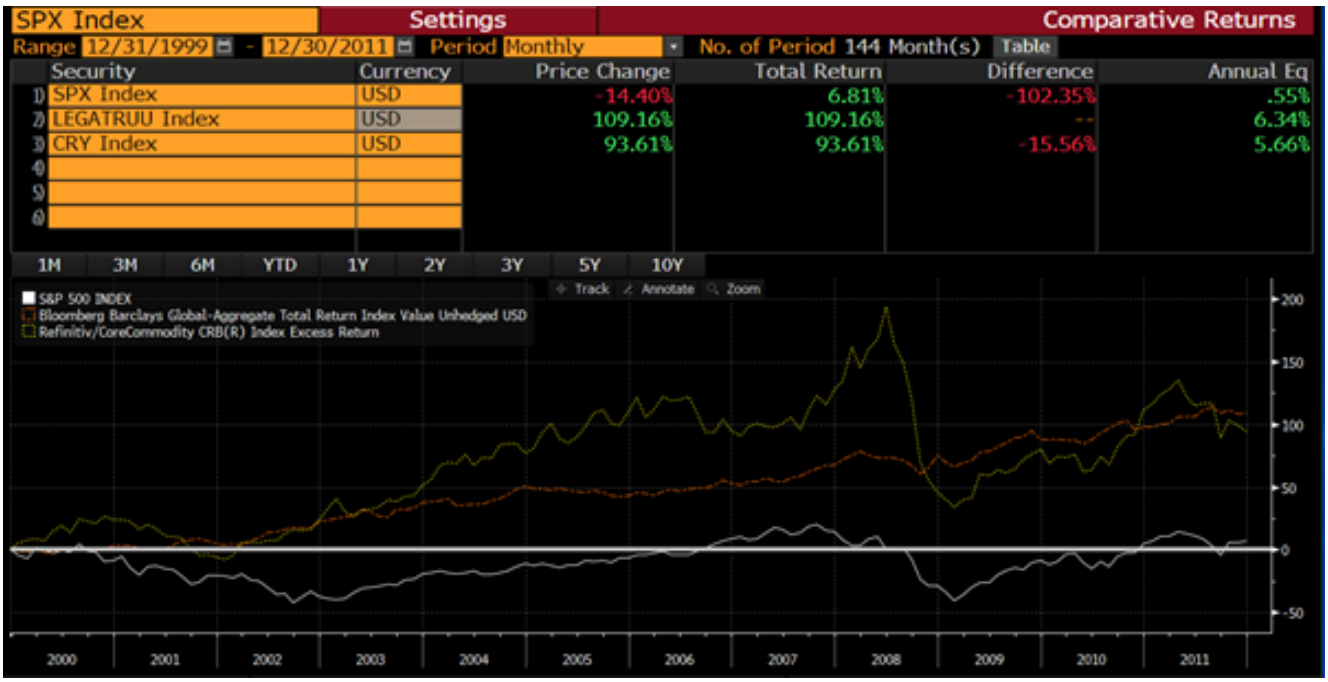
Market Timing. Impossible and Important all at once.

Most investment professionals will tell you market timing is impossible. Now I am saying that not only is it impossible, it is important as well.

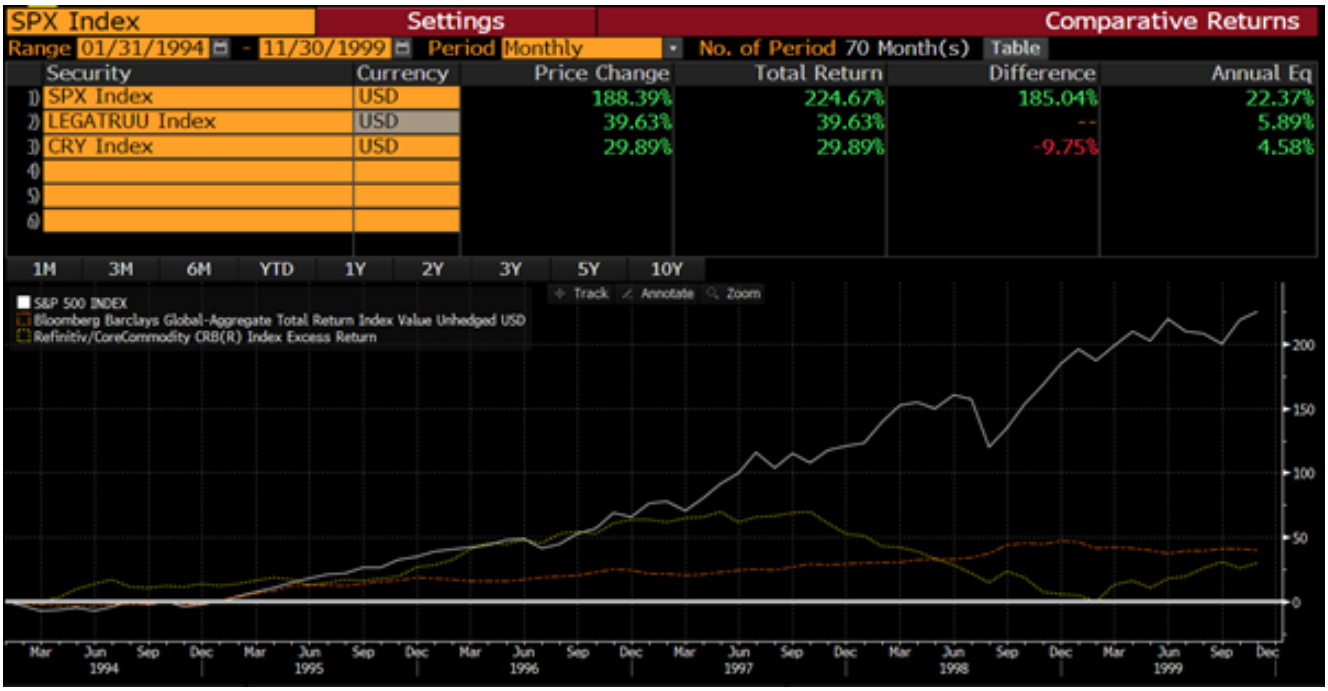
Simplistically, the last time we saw stock valuations this high (S&P500 at 26X) was in 1999. If you invested then in the S&P500, and held on for 12 years, until valuations normalized, your annualized return would have been 0.55%, for a total period return of 6.81%. If you invested in 1994, by 1999, you would have made 225%, or 22% per annum. Market timing might not work on a yearly time frame, but it is important on a decade level time frame. Value investing and fundamentals may be out of fashion at the moment, but current valuations and in particular their departure from reality are cause for concern. The tactical and nimble investor may decide to go risk-on and hope to get out before the market turns. Buy and hold by all means, but keep an eye on price action.

S&P500 Price Earnings Ratio: Sticker shock.

Asset Returns 1999 to 2011: Investing at a top.



Asset Returns 1994 to 1999: Investing just before turbo boost.



*data source: Bloomberg.