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## **Market Timing Found an Impossible-Odds Gamble for Investors**

*Towneley-sponsored study confirms significant risks when trying to "time the market"*

Laguna Hills, Calif. – December 16, 2005 – Investors in U.S. stocks who were "out of the market" fewer than the best 1% of all trading days from 1963 through 2004 missed 96% of the market's gains. This finding comes from an updated analysis of stock market fluctuations commissioned by Towneley Capital Management, a Laguna Hills, California-based investment management firm.

Dr. H. Nejat Seyhun, professor of finance at the University of Michigan, School of Business Administration, analyzed monthly market data over the 79-year period between 1926 and 2004, adding 11 more years of data to the original 1994 market timing study, with similar results.

The study shows that investors who make relatively few market timing mistakes find themselves worse off than if they had continuously held either U.S. Treasury Bills or stocks and did not move into and out of the market. The study defines market timing as an investment strategy that transfers assets from stocks to cash equivalents, and vice versa, based on a prediction of the direction and extent of the stock market's next price movement.

Among the study's most significant findings are:

- \$1 invested in the stock market in 1963 would have grown to \$75 by 2004, reflecting an average annual return of 10.8%. But if the best 90 trading days are set aside (less than 1% of the 10,573 trading days during those 42 years), the return shrinks to a mere \$2.70.
- To compound their pain, those investors who missed the best 90 trading days endure almost as much market risk as a full-time stock investor over the same 42-year period. However, their average annual return is only 3.2% for the whole period —about half the return from a full-time investment in risk-free Treasury Bills.

Commenting on the study's findings, Towneley President, Tracy Kuntz, MBA, CFP<sup>®</sup>, said, "Because so very few trading days or months can make or break a strategy based on attempts to time the market, the study proves the best investment practice is to remain invested in a diversified portfolio, regardless of market fluctuations. A strategy that includes a suitable asset allocation target, low-cost investments, regular contributions and a long-term investment horizon, is your best bet for achieving your investment goals."

Additional study findings include:

- Just as missing the market's best days can devastate returns, avoiding its worst days can significantly boost returns. If the 10 worst trading days from 1963-2004 are eliminated, the cumulative return for the period more than doubles from \$74 to \$155. If one sidesteps the 90 worst days, the cumulative return soars over 2000% to \$1,694.
- During the 79 years from 1926 through 2004, a \$1 investment grew to \$1,920 (a geometric average rate of 10.04% per year). However, 95% of that gain occurred during just 48 months scattered throughout the 948-month span. If the best 48 months are missed, the cumulative 79-year return tumbles to a paltry \$6.46, reflecting an average annual return below that of Treasury Bills. The investor who misses the best 48 months also endures 80% of the market risk assumed by investors who remain fully invested in stocks over the 79-year period.
- The monthly data indicates that a perfect market timer, one who always correctly anticipates market fluctuations, would have turned a \$1 investment in January 1926 into \$20 billion by December 2004. In contrast, an inept timer, one who always does the opposite of the perfect timer, would have turned \$100 million into \$1,000 over the same time period.

### **Study Background:**

In 1994, Towneley commissioned a study by Dr. Seyhun to measure the impact of short-term stock market fluctuations on long-term investment performance and the implications for market timers. Based on the analysis of historical data from the years 1926-1993, the research showed that practically all of the market's gains or losses over the several decades occurred during only a handful of days or months, making market timing even more difficult and risky than previously believed. In 2005, Towneley sponsored an update of this research. The new study incorporates an additional 11 years of market data, from 1926-2004, and reinforces the earlier study's conclusions.

"Over the years, many people have contacted Towneley asking for copies of the 1994 study," explained Kuntz. "Recently, we began receiving requests for an updated version. Since we were also curious how the last decade might have changed the original study's conclusions, we decided to have the study updated, incorporating data through 2004."

### **About Towneley:**

Founded in 1971 by Dr. Wesley G. McCain, a former Columbia University finance professor who developed the Multiple Mutual Fund Strategy, Towneley specializes in investment consulting and asset management for high-net-worth individuals and institutions. For more information about Towneley call 800-545-4442 or visit the company's website at [www.towneley.com](http://www.towneley.com).