Perspectives on Investment Strategies

Volatility in the markets has sparked renewed interest in market timing strategies. During periods of uncertainty, it is human nature to begin questioning our ways. As a result of the market turbulence beginning in 2008, and the more recent volatility at the start of 2009, there has been much discussion regarding equity investment strategies, and more specifically market timing strategies.

Market timing, as an equity investment strategy, is generally considered a shorter-term, "active" strategy that is intended to capture short-term changes by optimizing returns through buying and selling shares. Typically, technical, fundamental or quantitative analysis is used as a measure to judge the state of the market and determine whether share prices are low, indicating opportunities to buy, or share prices are high, indicating opportunities to sell.

Higher risk is associated with this approach given the potential for mistiming transactions related to changes in the market. Also, the approach may result in higher costs due to the prospect of a greater number of transactions and tax events over time.

Market timing strategies have been the subject of much controversy, challenged by those who believe that it is impossible to consistently and correctly time the markets, as so many factors impact changes in the markets. Many influential individuals successful with market timing have only correctly predicted a few of these events historically. Finding investors who consistently (and correctly) predict turns in the markets is difficult. Remember – only the minority can outperform the majority. In order to be successful as the minority, significant positions that go against the majority are required which often involve increased risks.

A contrasting approach to the market timing strategy is the buy-and-hold strategy, considered a longer-term, "passive" approach that is intended to capture the earnings potential and appreciation of shares over time.

This strategy focuses on investing in shares of a company with long-term prospects for sustained earnings and continued growth, even though there may be price swings throughout the holding period. Shares are sold when the underlying fundamentals no longer support the stock or the holding no longer fits the investor's investment goals.

The buy-and-hold strategy is considered to be less risky as market timing errors are minimized. Investment recommendations for all clients will ultimately be based on each individual's investment plan. Within this broad guideline, defined objectives and measurable goals will help maintain perspective despite market volatility. Asset allocation, risk tolerance, and investment timeline, to name a few important factors, must all be considered.

As financial markets constantly change, the plan will need to adapt accordingly. Prospects of specific companies, industries, or even whole classes of securities may be attractive today but not as attractive tomorrow. As an investor, your needs will also change over time depending upon your investment timeline and financial goals. Your holdings should be adjusted periodically to provide for changing circumstances.

Don't hesitate to contact Doug Warkentin to discuss any aspect of the investment process to meet your personal investment objectives.