
Investment Insights

Staying the Course Versus Timing the Market

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Key Takeaways

- ▶ As the old saying goes, *time in the market* is generally superior to *timing the market*. Yet, investors tend to have a bad habit of buying winners too late and dumping losers too soon.
- ▶ Staying the course does not necessarily mean sitting still. It means avoiding bad behavior, remembering your goal and ensuring your approach is applied with discipline.

“Stay the course” is a nautical phrase that has been popularized by world leaders, primarily in the context of battle. According to Stewart Alsop’s 1973 memoirs of a conversation with Winston Churchill, the British prime minister contemplated toward the end of World War II: “America, it is a great and strong country, like a workhorse pulling the rest of the world out of despond and despair. But will it stay the course?”¹

We ask the same question today of investors, after what has been an emotive period for financial markets. From trade wars to Brexit, and now the dramatic implications of coronavirus, we’ve had plenty to deal with. So, what do we mean by “staying the course”? It is not always about sitting still (although this can be an appropriate path at times), but rather, to focus on the goal that you set in the first place and ensure your behaviors align with it.

Behavioral Errors Can Wreak Havoc on Long-Term Portfolio Returns

Let’s face it, investors too often redirect their attention from the destination to the journey. Much like in other walks of life, we can lose focus, making us susceptible to capitulation or giving up at the moments when fortitude and resolve pay off most. That is, people are hard-wired to be procyclical, chasing the winners and selling out of the losers because of a yearning to make money work harder for us. This is not just conceptual, it is practical (we can see evidence in the fund flow numbers).

Therefore, it is vital that as investors we remain vigilantly aware of how animal spirits can drive irrational decision-making, and that we adopt a well-reasoned and principled framework for investing. Principles matter; it is easy to have principles with a nice tailwind and smooth waters, but those placid conditions are not when principles are most valuable.

¹ Alsop, S. 1973. *Stay of Execution: A Sort of Memoir* (Philadelphia: J.B. Lippincott Co.).

A Step-by-Step Guide to Staying the Course

The best thing an investor can do when contemplating change is to reflect on their goals.

Ask yourself this: "Given where I am now, what actions move me closer to my long-term goals?" "Would an investment change align with the original investment plan for reaching well-defined goals?" These are different questions than, "What do I wish I had done last month"? No doubt losses are painful. But reactivity to losses can induce a person to act rashly and make things worse in the long run.

So, the key question to ask is whether anything has fundamentally changed since setting the original strategy or whether it's just that you are disappointed with your progress toward your goals.

- ▶ If something has fundamentally changed, the question to ask is whether you can clearly identify what has changed. Write it down, then balance this by writing what it might mean if you're wrong. This should include any misjudgment risk as well as the added costs if you decided to change investments (given where you are now). You may often find that the impulsive change you desire is not necessarily going to increase the probability of reaching your goals.

- ▶ If it has "just" disappointed you, but nothing has fundamentally changed, the likely best option is to stay the course. By thinking probabilistically and remembering that investment markets never move in straight lines, you may avoid the perils of trying to time the market. Furthermore, you may benefit by doing the opposite to your intuition (given the evidence against it) and teach yourself to be a contrarian. Simply put, when bad things happen in the market, they have already happened to your portfolio, and that's in the past. A contrarian views this volatility as an opportunity to find overlooked value in the market and invest in solid companies being sold cheaply by others who are in the grips of fear and undue pessimism.

How We Think About Staying the Course

As professional, multi-asset investors, we focus on investment objectives, always bearing in mind the opportunity costs and risks. We also write down a balanced thesis that ensures we control the emotions that can drive some decision-making. We have investing principles that don't sway when the market lurches.

In this sense, staying the course is not idle or passive, but rather about staying aware and thinking in long timescales. Some investors may look at a recent period of lean returns and, with a hindsight bias and the herd mentality at play, will fear for the future. Many will further justify to themselves that reward for risk is simply not sufficient and will consider a change in strategy. This thinking is usually well intentioned, but it may be dangerous and must be thought through with a long-term perspective.

Staying the Course vs. Timing the Market

Investing, like many things, often involves taking the thorns with the roses: There is no reward without risk. Over decades of evidence and through the investment literature there is one golden thread—the evidence clearly favors time in the market over timing the market.

But “staying the course” to our way of thinking is subtly different to even “time in the market.” Time in the market sounds passive. Yet, if volatility were to spur a portfolio rebalancing, this keeps the goal in place and aligns with a long-term approach. This is what we would call staying the course. Perhaps returning this phrase to its nautical origin² will help illuminate what we mean. Imagine you’re the captain of a ship, you’ve been given GPS coordinates as a destination, and are heading to reach that destination. If after a few hours you’re tired of holding the helm steady, this is akin to making portfolio changes for emotional reasons. If instead you find yourself blown off course, it would be foolish to not change your heading to align with the coordinates of your destination. We believe our valuation-driven investment approach does the latter. We seek the strongest winds and/or lightest chop, always keeping firmly focused on our destination, knowing the weather changes.

Align Every Change to Your Goal

It is important to reiterate that investors shouldn’t avoid change altogether, however must be far more calculating when they do make change. Valuation-driven investing is a good example of measured change in action, where Seth Klarman paints a thoughtful picture of the approach:

While some might mistakenly consider value investing a mechanical tool for identifying bargains, it is actually a comprehensive investment philosophy that emphasizes the need to perform in-depth fundamental analysis, pursue long-term investment results, limit risk, and resist crowd psychology.³

Bringing this together, we believe that “staying the course” is the right approach, patiently allocating to assets that will help you achieve your goal. So, if you catch yourself getting down about the state of the equity market or trying to predict what’s next, keep in mind these concepts and always remember why you are investing in the first place. ■■■

² For what it’s worth, the original meaning of “stay the course” was probably different from our current meaning, which may be better said as “staying on course.”

³ Source: The preface of the sixth edition of *Security Analysis* by Benjamin Graham, 2008

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