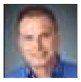
10 Best Days - A Meme For Every Bull Market



Lance Roberts
Investing Group Leader
Following

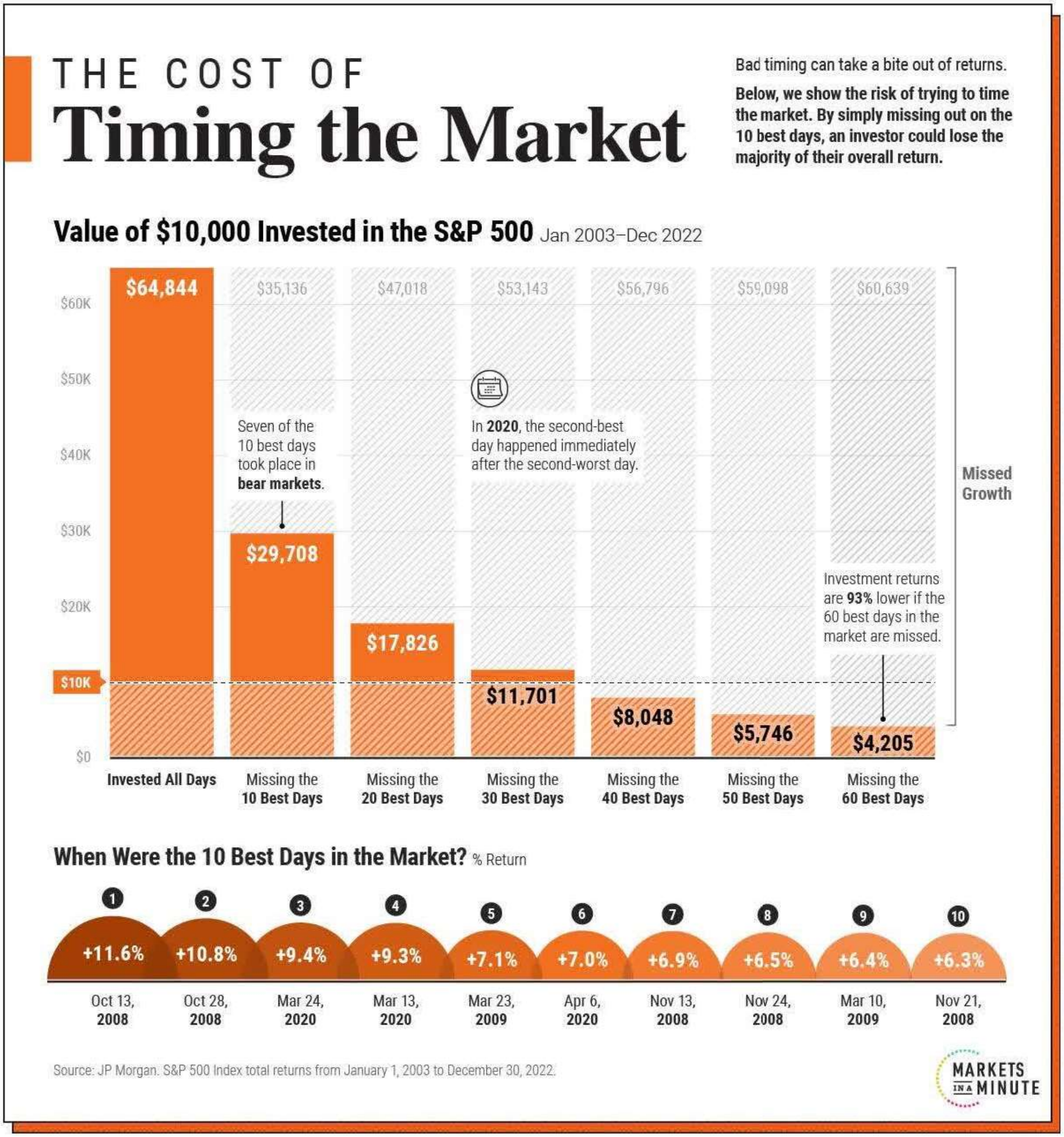
Summary

- The analysis of “missing out on the 10-best days” of the market is steeped in the myth of the benefits of “buy and hold” investing.
- Investors regularly suffer from the “buy high/sell low” syndrome.
- It may not be possible to “time” the market, but it is possible to reach intelligent conclusions about whether the market offers good value for investors.

Kameleon007

About once a year, I have to address the issue of chasing the *"10 Best Days"* of the year. *Statista* recently presented the analysis:

"There is clear evidence that market timing is difficult. Often, investors will sell early, missing out on a stock market rally. It can also be unnerving to invest when the market is flashing red. By contrast, staying invested through highs and lows has generated competitive returns, especially over longer periods. The graphic below shows how trying to time the market can take a bite out of your portfolio value, using 20 years of data from JP Morgan."



The financial media regurgitates this same analysis whenever there is a market correction.

"If an investor were to simply miss the 10 best days in the market, they would have shed over 50% of their end portfolio value. The investor would finish with a portfolio of only $29,708, compared to $64,844 if they had just stayed put."

What is interesting is that this analysis is almost always the same. We addressed the same in March last year as the market stumbled following the Russian invasion of Ukraine.

Panic selling not only locks in losses but also puts investors at risk for missing the market's best days.

Looking at data going back to 1930, Bank of America found that if an investor missed the S&P 500's 10 best days in each decade, total returns would be just 91%, significantly below the 14,962% return for investors who held steady through the downturns." - *Pippa Stevens via CNBC*

However, as Paul Harvey used to quip, ***"In a moment…the rest of the story."***

Best Days Occur During Bear Markets

Here is the problem with the analysis. What about the losing days?

While those doing the analysis do mention the losing days, they dismiss the impact. Here is the *"rest of the story"* from Statista.

*"Why is timing the market so hard? **Often, the best days take place during bear markets.** Over the last 20 years, **seven of the 10** best days happened when the market was in bear market territory. **Adding to this, many of the best days take place shortly after the worst days.**"*

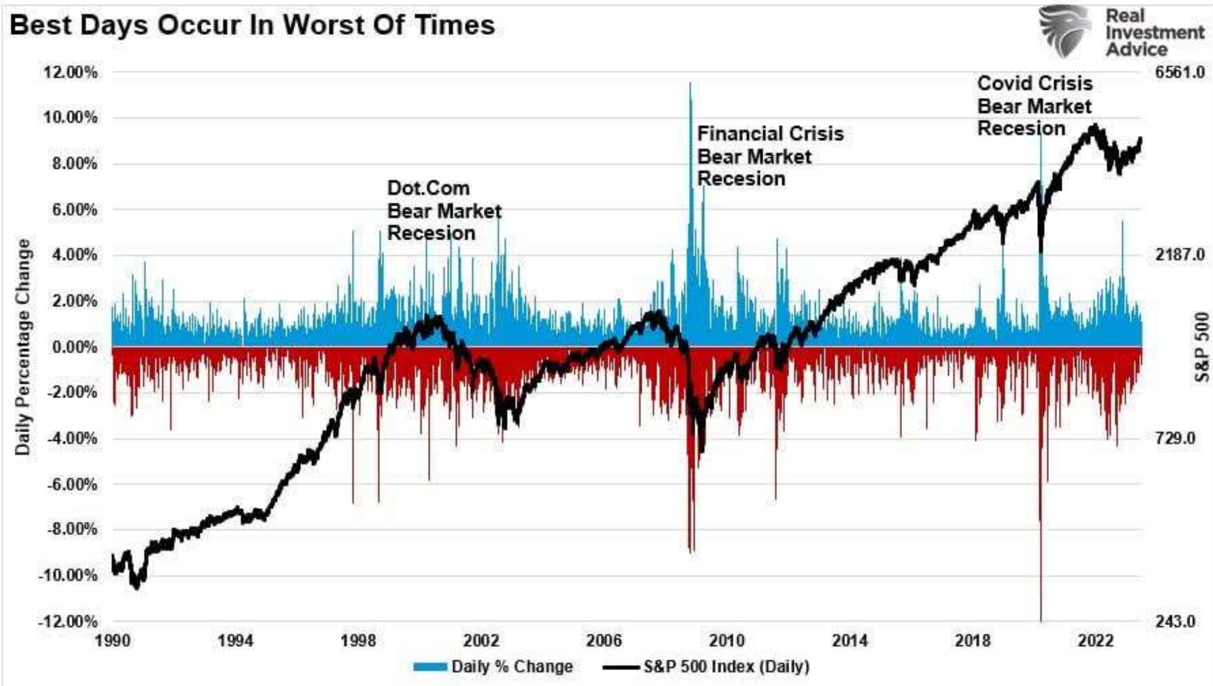
Such was the same conclusion by Pippa Stevens in 2020.

*"The firm noted this eye-popping stat while urging investors to 'avoid panic selling,' pointing out that **the 'best days generally follow the worst days for stocks.'"***

Think about that for a moment.

*"The **best days** generally follow the **worst days.**"*

The statement is correct, as the S&P 500's largest percentage gain days tend to occur in clusters during the worst of times for investors.

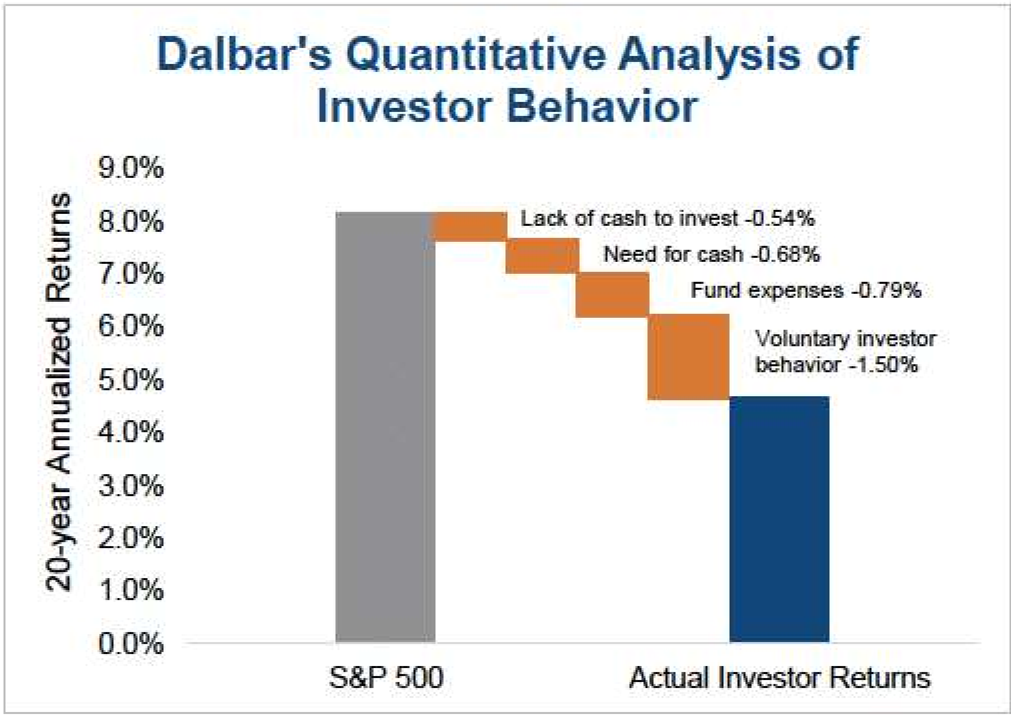


The analysis of *"missing out on the 10-best days"* of the market is steeped in the myth of the benefits of *"buy and hold"* investing. As a strategy, buy and hold works great in a long-term rising bull market.

However, *"buy and hold"* generally fails as a strategy during a bear market for a straightforward reason: ***Psychology.***

I agree, investors should never "panic-sell," as such "*emotional"* decisions are always made at the worst possible times. As Dalbar regularly points out, individuals always underperform the benchmark index over time by allowing *"behaviors"* to interfere with their investment discipline.

Chart 1



In other words, investors regularly suffer from the *"buy high/sell low"* syndrome.

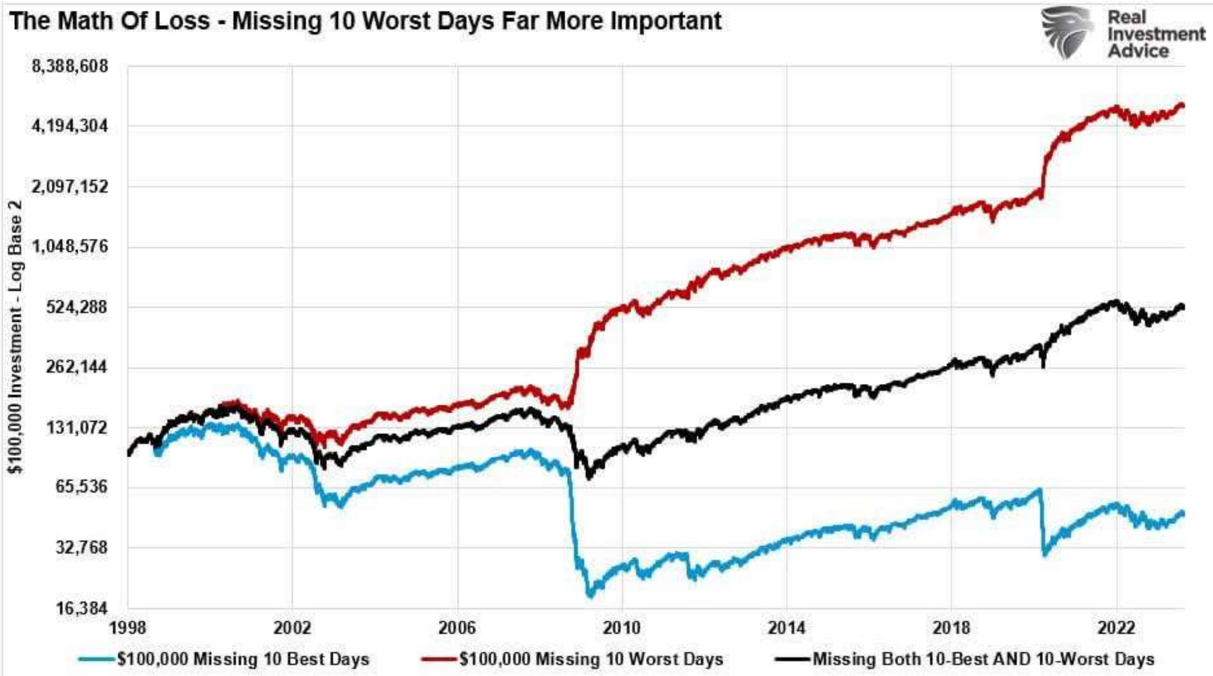
This is why investors should follow an investment discipline or strategy that mitigates volatility to avoid being put into a situation where *"panic selling"* becomes an issue.

Let me be clear. An investment discipline **does *not*** guarantee your portfolio against losses if the market declines. This is particularly true when it plummets, as seen in 2008. However, a solid investment discipline will work to minimize the damage to a recoverable state.

Avoiding The Worst Days Is A Better Endeavor

So, if the best days occur during the worst periods for the market, does it not become more logical to focus on avoiding those periods? While missing the *"10-Best Days"* of the market certainly does impair portfolio performance over time, what about missing the *"10-Worst Days?"*

How important is this? Over an investing period of about 40 years, missing the *"10 Best Days"* would cost you about 50% of your capital gains. But successfully avoiding the *"10-Worst Days"* would have led to 2.5x the gains over *"buy and hold."*



Avoiding significant drawdowns in the market is critical to long-term investment success. **Obviously, if you are not spending the bulk of your time making up previous losses, more time is spent compounding invested dollars towards long-term goals.**