The Secret of Successful Investing.

Now I know you must be thinking there can’t be much of a secret if it’s plastered all over the papers…but stick with me.

There has been a lot of speculation in the press recently about maximising investment returns by investors timing their entries and exits from the market, depending upon the prevailing market sentiment. So for example when the world’s stock markets were falling in 2000-03, so called smarter investors would have known that this was a time to exit the market. Similarly there is a prevailing sentiment against investing in commercial property at the moment. Or alternatively recent market volatility suggesting this is not a good time to ‘be invested’.

It’s at times like these that one needs to understand the fundamentals behind investing, the ‘secret’ if you like. (For this I am indebted to research provided by a highly respected market research company, Lipper Hindsight.) Between 1st January 1992 and December 31st 2007 there were 4044 trading days- the time that one could have been invested. Assuming you were fully invested in UK equities for all this time the annualised return was 9.84% p.a. and that by anybody’s reckoning is a pretty impressive rate of return.

But let’s suppose as an investor you missed the 10 best days returns i.e. you were ‘out of the market’ for only 10 days. Annualised returns would have fallen by almost 30% to 6.89% p.a. Similarly if you missed the 20 best days returns would have dropped by over 50% to annualised returns of only 4.71%. Or if you missed the 40 best days the return dropped by almost 90% to a meager 1.06% p.a.

Typically the best market returns come after a market fall or correction. Nervous investors who ‘pull out’ of the market after a fall nearly always miss the bounce. So the secret to successful investing is to be invested in the first place. Don’t try and second-guess the market as this invariably leads to failure.

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