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THE WALL STREET JOURNAL.
WSJ.com

ROI | SEPTEMBER 29, 2010

You Should Have Timed the Market

By BRETT ARENDS

Everybody knows the last decade on Wall Street was a poor one for investors.

Turns out it was even worse than we thought.

A remarkable new study from TrimTabs Investment Research shows that regular investors needlessly lost billions more than they should have on the stock market. Why? It's the old story: They invested more money in their equity mutual funds during the booms ... and then sold them during the panics.

So even though Wall Street overall ended the decade pretty much level (when you include dividends), average investors lost a bundle. TrimTabs puts the losses at $39 billion. It calculates that mutual fund investors bought into the Standard & Poor's 500-stock index at an average of 1,434. That's close to its record high of 1,565. If investors had invested at random times instead, their average purchase price would have been 1,171.

If the Bush tax cuts expire, how can you protect your portfolio before year end? Plus, Cody Willard says market timing is better than then buy and hold. And, investing in church bonds yields blessings but carries plenty of risk. Watch our Wealth Advisor video series with Reporter Veronica Dagher to find out more.

"It cost them about 20% to buy high and sell low," says TrimTabs' Vincent Deluard.

So even though the stock market today is around its 10-year average, TrimTabs reckons most of those who invested during the decade are actually sitting on hefty losses.

What does this dismal news mean for you, the investor, now?

Oddly enough, it means almost exactly the opposite of what Wall Street is going to tell you it means. The Wall Street crowd will say, as usual: "See, you can't time the market! Just like we told you! So just give us all your money, and just go with the flow."

That this line happens to serve the economic interests of Wall Street is, of course, a pure coincidence. Yet the TrimTabs numbers show, instead, that over the past decade it was actually quite easy to time the market. All you had to do was buy when the public was selling, and sell when the public was buying.

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Charlie Chaplin in "The Rink": Even though the market has been flat over the past decade, half of all stock-fund investors are sitting on hefty losses.

Naturally, going against the crowd is easier said than done. That's why the best professional investors like to say that successful investing is "simple, but it isn't easy."

Human beings are hard-wired to run with the herd. For millions of years, when the herd stampeded, the smartest move wasn't the hang around and wait to see why. It was to run.

And that's how they act on the stock market as well. But when it comes to investing, it's a bad idea. Your feelings are a bad guide. And there is no safety in numbers.

I am frequently surprised at how many people still give in to their instincts in these matters. During the housing boom, anything I wrote questioning house prices automatically drew scathing reactions. Today anything I write that is positive about buying a home draws a similar response. (I'll confess this alone makes me feel bullish.)

At the depths of the stock market lows, early last year, I pointed out that even rock-solid blue chips were being sold off cheaply: My email box filled up with people telling me I was an idiot, that Kellogg (then $38, now $51) or Procter & Gamble (then $47, now $61) or Kraft Foods (then $22, now $31) were doomed along with everything else.

But as the TrimTabs research reveals, our feelings are terrible guides in these matters. Even during a flat decade, people could make money just by going against the herd. They didn't need to know anything else. They didn't need quantitative models, astrophysics Ph.D.s from M.I.T., inside information or privileged access. All that money spent on equity research? All you had to do was look at the latest numbers from the Investment Company Institute, showing whether the public was putting money into their stock-market funds or taking it out. And then do the opposite.

Last week I was in London, visiting one of the best investors I have ever known. Peter handles money on behalf of a small number of rich clients.

He shuns publicity (and requests that I don't mention his last name). He's been managing money for 40 years. Ten years ago he told me to sell the Nasdaq and buy gold.

Over dinner, as he reflected on a long career, he told me that as he has gotten older he has learned that good investing is even simpler than he used to think. He has abandoned most of the sophisticated tricks he tried to use as a young man. He sticks to value, and he runs against the herd.

Right now? He likes some blue-chip stocks, as they are reasonably cheap and no one else seems to be interested in them. He's avoiding fashionable emerging markets. And he's been quietly building a position in Japan. Why? "Everybody hates it," he says. "Twenty-year bear market. It's cheap. And your typical fund manager would rather suck a lemon than invest in Japan."

Most people's reaction to this is probably to shrug and forget about it. Japan is so over, after all. Why would you want to invest in Japan? Nobody wants Japan.

Hmmm.

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