

STAAR STRATEGIES REPORT

5-26-00 (Special email issue)

Short Term Timing or Long Term Principles?

When Buying High Is Still Buying Low

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This will be brief and to the point. Market timing, where an investor attempts to shift out of markets at high points and buy back in when they are at lows, is difficult at best. In fact most studies I have seen suggest that investors who simply buy and hold have done significantly better than most professional or amateur market timers have.

This is not to say that timers can't do well. Some have. They will argue that even if they achieve less total return than buy and hold investors, their objective is to avoid large losses. There is some validity to the claims, and some aspects of timing should be considered in your investments. However, there may be a bigger risk in timing; you can miss out completely if you either get out at the wrong time or fail to buy while waiting for a lower price which never comes.

Currently, most stock markets are down around the world. Many investors are getting defensive. What is interesting is that those who are thinking of selling now may find themselves on the wrong side of both short-term market timing and long term principals.

Remember the old, trite and true aphorism, "Buy low, sell high"? Well where are we now? And where will we be in five years? Consider the DOW Jones Industrial Average.

The chart shows the last fifteen years from 5/25/85 to 5/25/00. The bottom of each bar is the low value during the 12 months and the top of the bar is the high value. On a short-term basis (one year) it is clear you should have sold the DOW at a high point in 1987. The market crashed and took about a year and a half to recover. But in just about every other year prior to 1999, you could have bought at the top and still have been ahead at some point during the next year. On a long-term basis you could have bought at the top of any year prior to 1999 and made an excellent annualized return. In only one year (again 1987) could you have bought at the top and not been ahead within 12 to 14 months.

Let me illustrate it another way. A theoretical share of the Dow is now worth about \$10,324. In 1987 you could have paid almost \$3,000 with the worst possible timing or less than \$2,000 with the best timing. Of course you would have wanted to pay less. Who wouldn't? But either way it was a great deal!

On the other hand, what if you had sold at the bottom and failed to get back in? Or what if you were afraid and didn't invest at all in stocks? You would have been a big loser.

This year, the DOW is down, well below its peak. Short term, some investors see gloomy skies and are selling. Is that wise? Nobody knows for sure, but history would indicate that if your time frame is ten years or longer, there are few bad times to buy. But there are plenty of bad times to sell if you fail to get back in at the right time.

Buy low, sell high. From today's perspective was the 1987 high really low? You betcha.

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