Principle 5: Never Try to Time the Market

[Applause]

Jim Dahle: All right our next speaker today is hopefully well known to all of you. Rick Ferri, CFA, is the President of the Bogle Center He has a 35-year career as a financial advisor. He is the founder of two successful Financial advisory firms. He's the author of seven books on investing. He was a marine. I don't hold that against him, but it was a marine aviator. And he has made 9547 posts on the Bogleheads Forum. Rick Ferri.

[Applause]

Rick Ferri: Oh thank you Jim, and thanks everyone for being here. It's been a wonderful event. You'll hear some more remarks from me tonight during our reception but I want to get right into what I have been tasked to do today this morning, or this afternoon, and that's two things. Number one, I'm talking about never try to time the markets, and then I'm going to roll right into the next one which is number six which is why you should be using index funds whenever you can.

So let's talk about timing the market. This is a picture of the market. By the way I am a marine, okay. We work better with pictures than words, like some. My son-in-law is army, so he says when you went to OC yesterday they give you a box of crayons. Anyway, so you know we take a lot of marine jokes but yeah we get our points across.

So this is the stock market, right. Normal market, the market fluctuates. You cannot predict the market, but you can predict that it will fluctuate, and I don't know whether tomorrow it's going to be up or down. I don't know next month, next week, next year whether the market's going to be up and down, but I know it's going to be one direction or the other because it fluctuates.

So that we can say is predictable. Where it's going is really not predictable. In fact this chart is interesting because every single year, and this goes all the way back to

1980, the market both goes up and goes down every year. On the bottom where you see the green, that's the amount that the market went down, and on the blue, that's the amount the market went up. And then the net amount was where it ended up/

So markets go up, markets go down. Okay, and who's to say during the middle of the year where it's going to go tomorrow. I don't know where it's going to go. I know there's a lot of people who say they know. But they're also people who know they don't know, and I'm in the category of knowing I don't know, and it's worked out really well for me because then I can do disciplined investing which you've already heard about.

So every year there are rallies. Every year there are declines. We just don't know when they're going to begin and when they're going to end. And how big they're going to be. Other than that, investing is easy, right?

Oh also, what is it that we do as human beings wherever the market has just recently been. We react to that. Okay, when the market is high we're happy. My former partner from years ago used to say it's odd that when something gets more expensive people want to buy more of it. Okay but that's not true. Let's say the housing market, everybody's saying oh the price of housing is so high, you know I don't know if I want to buy now. I'll wait till it comes back down.

But it's funny with the market. When things do come down people say oh no, I don't want to buy now, it might go lower, this is a terrible place to buy, and start panicking. So you know reaction to the ups and downs of the market are very emotional, right, and you can't let your emotions drive when you're going to get in and when you're going to get out.

By the way this is from the Investors Intelligence bulls and bears. And just to illustrate what I'm talking about. So when this red line is very high people are very bullish, and if you were to overlay this on top of where the market is you would see that people are very bullish about stocks after stocks have already gone up.

And here we are now. This is actually the end of September. People are bearish. If

you look along the bottom, the average investor is very bearish after the market has already gone down, okay. But is this predictive of anything? The answer is no. There's no predictive value at all in this information, zero. That has been proven time and time again where people think the market is going to go and where it actually goes, there's zero correlation between those two factors.

Okay, but we feel like the market's going down and the market has gone down. Therefore we believe it's going to go down. In fact people will often say to me why should I invest now, the market is going down. And my answer is I don't know where it's going. I know where it's been, I know where it is, but I don't know where it's going.

And there's a big difference in the long run though, if the world stays in some sort of any normal growth pattern. In the United States, if we stay in a normal growth pattern for our economy, where eventually corporations earn more money, eventually productivity increases, maybe trade increases. Our GDP which is a measure of all this adjusted for inflation, goes up. Eventually this gets reflected in the stock market. So the only thing we really need to worry about is the world economy going up. Is it going to go up over our lifetimes, our children's lifetimes, our grandchildren's lifetimes. And that I'm willing to make a bet on because the alternative to that is not pretty.

So I am going to be optimistic and say I believe global GDP growth will continue. I believe our growth in this country will continue, and because of that corporations will make more money adjusted for inflation, and because of that that will ultimately get reflected in higher dividends, and the stock market will eventually go up. And I have to believe that not only for myself, but I have to believe that for my children, and my grandchildren, my great-grandchildren and generations beyond, because if we stop believing in that then we’ve got a problem. We can have a real problem. You should be buying lead, you know brass things like that.

Okay, so in the long run equity returns do come out of this global economic growth. So even if you don't buy it at the right time. Okay if you wait a while you'll be fine in the long run. So great quote by Benjamin Graham--Jason Zweig knows a quote very well because he re-edited a book or a second edition, if you will about Benjamin Graham’s book--but in the short run the market is a voting machine, but in the long run it is a weighing machine.

And it's again, the first part of this talking about emotion, the second part is talking about economic growth in the long run, and we're all long-term investors. You have to look at it as a weighing machine. Although you can use how other people are voting to your benefit, and the way you do that is simply by what you already heard Christine talk about, and others talk about up here, is you need to be diversified. And you have your diversified portfolio, you have your investment plan, as Jim talked about in the first segment.

And what you want to do is just do some rebalancing. So if you have a portfolio that happens to be a 40% U.S stocks/ 40% International stocks, or whatever I have up there, whatever that says, and it gets out of whack because stocks went up, then you would sell some and come back to your, looks like 30%, whatever that says. Bonds, domestic and foreign, you go back to your original plan. And then if it goes the other way, and stocks go down you do a rebalancing.

Now let me get back to where you want to be. This actually adds to your portfolio over time. So you have a plan, you're investing according to your plan, you're doing it with discipline, and you could be doing it through dollar cost averaging as Christine talked about, because you may be putting more money in the market. So as you're putting more money in the market. It has dividends paid, you can use that to do this rebalancing.

And also, if you're retired and you're taking money out and it turns out that stocks have gone up, well you take it out of the stock side of your portfolio and if stocks have gone down and you take it out of the bond side. So you can use distributions and you can use new assets going in to help you do the rebalancing.

As well taxes are going to play into this, and we could talk all about that at another time. So what you do, is you create your plan as Jim said. You stick with the plan and as John Bogle put it, invest when you can, rebalance, and stay the course.

That works. Okay that works. Now I lived through the 1970’s. I was in college. I saw markets like this where interest rates went way up and it caused the stock market to go down and all that. But guess what. Everything ended up working out just fine. It took a while but we got back to where we were supposed to be. My personal belief

on the market right now is the problem isn't that the market went down this year. The problem is it went too darn hgh last year, okay. I mean everything was expensive in 2021---was an incredible year because you name it, it went up in value, stocks, bonds, crypto, NFTs [Non-Fungible Tokens], real estate-- everything went up an awful lot last year. And last year was an ideal year to be selling some of those stocks and putting it in other asset classes like cash or in bonds.

This year might be going back the other way. I don't know how the year is going to end up, but the problem with the market today, the problem with the fact that the market went down today actually was 2021. That's where the problem began because there was so much money sloshing around, so much of a balloon in asset prices. Now at the time, again, everybody was euphoric. It looked great. We love this, Let's put more in, right. You know, you see these kitties flying through the air when they're worth two hundred and fifty thousand dollars on your computer. Like wow! That's great. How do I buy that?

Anyway, so stay the course you know, and come up with a plan, come up with your asset allocation, stay the course, and don't try to time markets.