WILSHIRE FUNDS MANAGEMENT

Market Insight

March 2020

The Worst Investment Timing: History shows that even buying at the top has been a winning strategy

Global equity markets have tumbled nearly 30% since the market peak on February 19th, 2020. The emotional response to such a sharp decline can range from panic about the potential of future losses to enthusiasm about the opportunity for long-term returns. As institutional investors, we are enthusiastic about the growing long-term investment opportunities that this market environment is presenting. We believe that discipline outweighs emotion, and therefore we promote the development and implementation of a clear investment policy that governs how investors manage portfolios and their emotions. We know that timing markets is very difficult. Short-term risks are hard to control, long-term risks are easier to manage, and long-term investment horizons have historically yielded more consistent return outcomes. Therefore, we continue to encourage a long-term investment philosophy and discourage deviations from your stated long-term investment policy.

To illustrate the benefit of a long-term investment strategy, the exhibit below shows all U.S. stock market corrections (i.e. selloffs of -10% or more) from 1926 to today, encompassing nearly 100-years of monthly data. The subsequent table shows each episode (18 in total, nine of which reach a bear market decline of -20% or more). Long-term investors should take some comfort from the historical resiliency of markets to recover unrealized losses. In the exhibit we contemplate an investor with the worst investment timing: investing in the equity market at each monthly market peak (i.e. immediately preceding each sell-off). Despite suffering an average initial loss of -27.9%, over the long-term, the same investor would have earned an average annualized return of 4.1% and 8.0%, over 5- and 10-year holding periods, respectively (as highlighted in orange below). These market environments are always emotionally challenging and stressful, but for those who focus on the long-term, even the worst investment timing has historically resulted in compelling long-term annualized returns. History shows that even buying at the top has been a winning strategy.

Historical market corrections since 1926

Date of Market Correction			Duration (# of Months)		Depth of	Annualized Returns of the Worst Investment Timing If Purchased at Peak	
Peak	Trough	Recovered	Sell-off	Recovery	Drawdown	5 Years	10 Years
Aug-1929	Jun-1932	Jan-1945	34	151	-83.4%	-17.4%	-4.9%
Feb-1937	Mar-1938	Mar-1944	13	72	-50.0%	-8.6%	4.0%
May-1946	Oct-1946	Oct-1949	5	36	-21.6%	9.1%	15.5%
Jul-1956	Feb-1957	Jul-1957	7	5	-10.2%	10.0%	9.0%
Jul-1957	Dec-1957	Jul-1958	5	7	-15.0%	7.6%	10.7%
Dec-1961	Jun-1962	Apr-1963	6	10	-22.3%	5.7%	7.4%
Jan-1966	Sep-1966	Mar-1967	8	6	-15.6%	4.3%	4.0%
Nov-1968	Jun-1970	Mar-1971	19	9	-29.2%	0.4%	3.1%
Dec-1972	Sep-1974	Dec-1976	21	27	-46.4%	-0.1%	7.6%
Aug-1978	Oct-1978	Mar-1979	2	5	-11.2%	17.1%	14.8%
Nov-1980	Jul-1982	Oct-1982	20	3	-18.8%	12.1%	11.8%
Jun-1983	May-1984	Dec-1984	11	7	-10.8%	12.8%	13.3%
Aug-1987	Nov-1987	Apr-1989	3	17	-29.8%	7.7%	13.4%
May-1990	Oct-1990	Feb-1991	5	4	-16.8%	11.5%	16.7%
Jun-1998	Sep-1998	Nov-1998	3	2	-12.0%	-1.3%	3.6%
Aug-2000	Sep-2002	Mar-2006	25	42	-44.1%	-1.6%	-1.1%
Oct-2007	Feb-2009	Mar-2012	16	37	-51.0%	0.6%	7.6%
Sep-2018	Dec-2018	Apr-2019	3	4	-14.3%	?	?
Market Correction Statistics		Average	11	25	-27.9%	4.1%	8.0%
		Median	8	8	-20.2%	5.7%	7.6%

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