What's that about? – Demystifying Investing

NIYATI KHANNA
CFP® Professional, CA, MBA [Finance & Strategy]
representative of Alman Partners Pty Ltd,
Australian Financial Services Licence No: 222107
AlmanPartners
True wealth

INVESTING HAS this aura around it – that almost tries to equate investing to rocket science and while there is a science and discipline to investing, it most certainly is not "Rocket Science."

In the article today, and the series to follow, we attempt to demystify some common myths around investing. Have you come across any of these or would like to discuss them, please let me know and I will get around to talking about it.

Myth 1: Making money is all about timing the market

It is not uncommon for one to think or be told to wait out the current volatility in the market before investing. But these are statements that demonstrate a lack of understanding of how the stock markets work. The key is to remember that markets are forward-looking. So, if something comes through that disrupts the world – say a pandemic or an invasion, the market will respond swiftly to absorb what that means for the world. When things change or look like they will change, markets will again reflect that in the prices of the stock. Now there is a constant flow of information - positive and negative, and it is usually multiple things at the same time so not an isolated development. If one considers this constant state of an influx of information, you will then understand that "waiting until the dust settles" may just turn to a game of always waiting!

We don't have to look too far back to see this in action either, the first quarter of 2020 saw the impact of COVID:

Periodic Performance

Monthly: 1/1/2020 – 31/3/2020

Returns in multiple currencies and no conversion selected.

Rates of Return (%)

Name	3 Months
S&P/ASX All Ordinaries Index (Total Return)	-23.92
S&P 500 Index	-19.60
MSCI All Country World ex Australia Index (net div.)	-21.13

This would be the time when most would have either exited or waited to invest in the market again. However, this is what followed immediately:

Periodic Performance

Monthly: 1/4/2020 – 30/6/2020

Returns in multiple currencies and no conversion selected.

Rates of Return (%)

Name	3 Months
S&P/ASX All Ordinaries Index (Total Return)	17.75
S&P 500 Index	20.54
MSCI All Country World ex Australia Index (net div.)	19.05

» Market timing is not only hard but also an almost impossible game to get right each time. If you got your timing wrong and missed just the 25 best performing days on the ASX over the last 20 years between 2001 to 2019, your annualised return would fall from 8.45% to 2.82% during this time. Think about this - there are over 5,000 trading days during this period and if you missed these 25 days, your experience would be very different. The question to ask is, are you willing to take that bet?