

## Is Market-Timing A Viable Investment Strategy?



**The likelihood of successfully calling market tops and market bottoms consistently is so remote that the odds are essentially zero.**

Plan B is a lesser known, but arguably more effective defensive strategy that can work for anyone who is prepared to follow through with it.



Many people believe they can call market tops and bottoms and make huge profits as a result.

But this self-belief often leads them to exit the market too soon, and sit on the sidelines waiting for the right time to get back in.

If you believe that you have what it takes to do this successfully, read on.

Some investors have a knack for calling market tops and bottoms, but if they all joined the 'Investors who accurately time the Market Club', their membership could probably fit into the conference room at the local Holiday Inn - In fact there's a picture of a recent members meeting of this group below!

To start, let's suppose the number of members is 1,500.



The odds of successfully calling tops and bottoms consistently are so small that they are essentially zero.

But they do exist, which is why some investors will never stop trying.

The problem is that the membership in this exclusive club is constantly shrinking. Here's why.

At any given market top, there are many who will correctly call it. If we are generous and estimate that the chance of any investor, blogger, pundit, advisor, or strategist correctly calling a single market top is 15%. That is 225 of our club of 1,500.



It's the next bit that starts to thin the crowd in our Holiday Inn.

Calling the top is only half of the dilemma. If you want to be a member of the 'Investors who accurately time the Market Club', you also must correctly call the bottom.

This adds a degree of difficulty that lowers the chance of success further. Now the odds have dropped from 15% down to 2.25% ( $15\% \times 15\%$ ).

Still not zero, so the club remains intact, but the meeting room just got smaller, with only 33 or 34 members left from the original 1,500. (Actually, the calculator says 33.75, but let's call it 34).

Now if we repeat the process for the second market cycle, our remaining 34 successful timers have a 15% chance of calling the next top.



So, the club is now down to just 5 investors, and they must be able to call the next bottom if they want to stay in the club.

Only 15% of the remaining 5 investors (calculator says 5.0625) will correctly call the next bottom, which leaves us with 0.76 people (none) who are still members in good standing.

Let's be generous and assume there is one member left.

After two market cycles, our club is now definitely small enough to meet in the service lift. In fact, he is probably enjoying a beer from the mini-bar in his single room, as all his friends have gone home, depressed and dejected.



I won't torture you with any more iterations of this process because it should be obvious by now that picking market tops AND bottoms consistently is nearly impossible - You might as well do something else with your money.

But there's some good news... You don't have to pick tops and bottoms to maintain portfolio return.

See my article ["Market Falls - Ways To Protect Your Investment"](#)