Fourth Quarter 2023

When "Missing the Best" Doesn't Matter

Whenever individual investors begin getting nervous about staying invested in equities, it seems the media trots out one of the oldest arguments against active management – what if you miss the best days of the market? One of the latest such arguments against using active management taps into a 2021 study by Bank of America on missing the best and worst days of the market.

CNBC's analysis of the data states: "*Looking at data going back to 1930, the firm found that if an investor sat out the S&P 500's 10 best days per decade, total returns would be significantly lower than the return for investors who waited it out. And the market's best days typically follow the largest drops, meaning panic selling can lead to missed opportunities on the upside.*"

The difficulties of trying to time the market

Bank of America looked at the impact of missing the market's best and worst days each decade

Decade	Price return	Excluding worst 10 days per decade	Excluding best 10 days per decade	Excluding best/worst 10 days per decade
1930	-42%	39%	-79%	-50%
1940	35%	136%	-14%	51%
1950	257%	425%	167%	293%
1960	54%	107%	14%	54%
1970	17%	59%	-20%	8%
1980	227%	572%	108%	328%
1990	316%	526%	186%	330%
2000	-24%	57%	-62%	-21%
2010	190%	351%	95%	203%
2020	18%	125%	-33%	27%
Since 1930	**17,715%**	**3,793,787%**	**28%**	**27,213%**

Source: Bank of America, S&P 500 returns

Bank of America is a curious voice for passive management since its own marketing boasts of a "tried and true market indicator," which provided a powerful contrarian buy signal in March of 2022. By December of 2022, Bank of America's Research Investment Committee was advising "It won't be time to buy into stocks until after the Fed makes its last rate hike." Perhaps the contradiction between CNBC's analysis of the chart and Bank of America's support of active management can be explained by taking a second look at the study's results.

Yes, missing the best days of the market significantly reduces return and yes, the best days and worst

days often occur very closely together. But the outsized benefit of missing the worst days, makes it clearly appear worth the effort of trying to do so. Even more interesting is the fact that one doesn't need the best or the worst days to outperform a buy-and-hold position. Out of 10 decades, missing both the best and worst days underperforms a buy-and-hold position in only two decades – the 1930s and the 1970s, according to the study.

The best and worst days of the market typically occur in highly volatile market periods, when market risk is at its highest.Active management isn't about making 100% in or out of the market decisions. It means adjusting portfolio positions in response to perceived market risk to limit the potential for losses or capitalize on healthy upswings. Any time we can reduce losses in down markets, the portfolio has more to invest in rising markets. That's when active management has the ability to make a difference.

SOURCES:

** "This chart shows why investors should never try to time the stock market," CNBC, published Wed, Mar 24 2021 12:15 PM EDT Updated Wed, Mar 24 20212:18 PM EDT.*
*** Bank of America's reliable market-timing tool has been triggered, signaling short rally ahead, CNBC. published Fri, Mar 25 2022 10:22 AM EDT.*
*** Here's how to invest in the stock market next year, according to Bank of America, by Phil Rosen, Dec 8, 2022, 4:15 AM MST BusinessInsider.com*

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