Timing the market: The absolute worst vs absolute best vs slow and steady

I downloaded the historic S&P 500 data going back 40 years. I dumped everything in Google Sheets and modeled the three different portfolios, named after three fictional friends Tiffany, Brittany and Sarah. All three saved $200 of their income per month for 40 years for a total of $96,000 each. But after 40 years they all ended up with different amounts based on their investment strategies.

Tiffany's Terrible Timing

Tiffany is the world's worst market timing. She saves $200/month in a savings account getting 3% interest until the worst possible times. She started by saving for 8 years only to put her money in at the absolute market peak in 1987, right before Black Monday and the resulting 33% crash. But she never sold, and instead started saving her cash again, only to do the same at the next three market peaks. Each time she invested the full amount of her saved cash only to watch the market crash immediately after. Most recently she put all her money in the day before the 2007 financial crisis. She's been saving cash ever since waiting for the next market peak.

With this perfectly bad market timing, Tiffany still didn't do too bad. Her $96,000 she saved and invested over the last 40 years is now worth **$663,594**. Even though she invested only at each market peak, her big nest egg is thanks to the power of buying and holding. Since she never sold, her investment always recovered and flourished as the market inevitably recovered far surpassing her original entry points.

Brittany Buys at the Bottom

Brittany, in stark contrast to Tiffany, was omniscient. She also saved her money in a savings account earning 3% interest, but she correctly predicted the exact bottom of each of the four crashes and invested all of her saved cash on those days. Once invested, she also held her index fund while saving up for the next market crash. It can't be overstated, how hard it is to predict the bottom of a market. In 1990 with war breaking out in the Middle East, Brittany decided to dump all her cash in when the market was only down 19%. But in 2007, the market dropped 19% and she didn't jump in until it fell all the way down to a 56% drop, again perfectly predicting the exact moment it had no further to fall and dumped in all of her cash just in time for the recovery.

For this impossibly perfect market timing, Brittany Bottom was rewarded. Her $96,000 of savings has grown to **$956,838** today. It's certainly an improvement, but interesting to note that when comparing the absolute worst market timing versus the absolute best, the difference is only a 44% gain. Both Brittany and Tiffany have the vast majority of their growth thanks to buying and holding a low cost index fund.

Slow and Steady Sarah

Sarah was different from her friends. She didn't try to time market peaks or valleys. She didn't watch stock prices or listen to doomsday predictions. In fact, she only did one thing. On the day she opened her account in 1979, she set up a $200 per month auto investment in an S&P 500 index fund. Then she never looked at her account again.

Each month her account would automatically invest $200 more in her index fund at whatever the current price happened to be. She invested at every market peak and every market bottom. She invested the first month and the last month and every month in between. But her money never sat in a savings account earning 3% interest.

When Sarah Steady was ready to retire, she signed up for online access to her account (since the internet had been invented since she last looked at it). She was pleasantly surprised with what she found. Her slow and steady approach had grown her nest egg to **$1,386,429**. Even though she didn't have Brittany's impossibly perfect ability to know the bottom of the market, Sarah's investment crushed Brittany's by more than $400,000.

Recap

- Amount Saved/Invested: $96,000 each
- Investment: Buy and hold an S&P 500 index fund
- Tiffany (worst timing in the world): $663,594
- Brittany (best timing in the world): $956,838
- Sarah (auto invests monthly): $1,386,429

So if you're worried the market is too high and we're due for a crash. Or you want to wait for the inevitable drop before you put your money in. Think about whether you're so good at predicting the market you can do it better than Brittany who knew when to invest down to the exact day. And even if you are that good, realize that it's still a losing strategy to the early and often approach that Sarah executed so flawlessly.

Resource:
https://www.reddit.com/r/financialindependence/comments/c02ml4/timing_the_market_the_absolute_worst_vs_absolute/