# Market Matters: 2nd Quarter 2025

*"…This feels like one of those moments when the risk of something going wrong is just around the corner. Or maybe, as history has shown time and again, it's a moment full of unexpected opportunities. The only thing I know for sure is this: the hardest day to invest is always today".*
*– Ted Seides, Capital Allocators*

- The what, where and when of investment decisions is never easy.
- When valuations are high, investors are wary.
- When valuations are low, investors are fearful.
- Time in the market wins, whether or not an investor's timing is good.
- Long-term Investors can enter the market at any time. Decumulating investors should plan ahead to avoid liquidating during the bad times. [1]


## The Hardest Day to Invest is Today. And tomorrow. And the next day.

During this first half of the year, we effectively journeyed from a market high, to a bear market trough, to marching past that high again. The S&P 500 was down almost 20% in early April after a +25% year in 2024, and has now rebounded 24% to post a 5% year-to-date return. In terms of price levels (points), we saw a year of gains wiped out and then reincarnated in the wink of an eye. Volatility is down presently, with bullishness winning against bearishness in the market tug of war, but many of the circumstances that caused the bearish shakeup are still present. Capricious tariff policy, geopolitical conflict, government deficit woes, and U.S. economic weakening haven't gone away. **There is a certain clarity of the magnitude of risk that investors could face, even though there is no clarity in whether or when these risks will come to bear. The juxtaposition of this landscape with peak asset valuations may seem senseless, and the idea of buying into this picture insane.** The prospect that one of many heightened risks might all of the sudden materialize and drive markets into a correction or the economy into a recession seems *all but* imminent. Things

[1] Cartoon credit Tom Fishburne, Marketoonist.

could go south any moment, but they could also keep humming along, becoming derailed down the line by a risk we could never have seen coming.

The present risks, including simmering geopolitical conflict on multiple fronts, trade war threats and a new frontier of weaker economic conditions paired with high valuations, plus high rates, tight liquidity, deglobalization and protectionism, may on any given day seem to be either decelerating or taking off. These are threats to growth, and economic indicators are indeed slowing, but their lagging nature and opaque metrics make them difficult to interpret. Unemployment is still low, but rising youth unemployment is a warning sign. Inflation seems to be coming down, but tariffs haven't been fully priced in yet. The Fed is holding rates and has lowered its forecast from three rate cuts this year to two, prompting some to worry the FOMC is behind the curve.

**When markets are up, valuations seem so stretched that the expense of stocks or the price paid for yield is unappetizing**. Inflated asset prices dampen their appeal. At the same time, harvesting capital and taking risk off the table isn't easy either. Even with the risk of price correction, de-risking today eliminates the upside needed to preserve real growth.

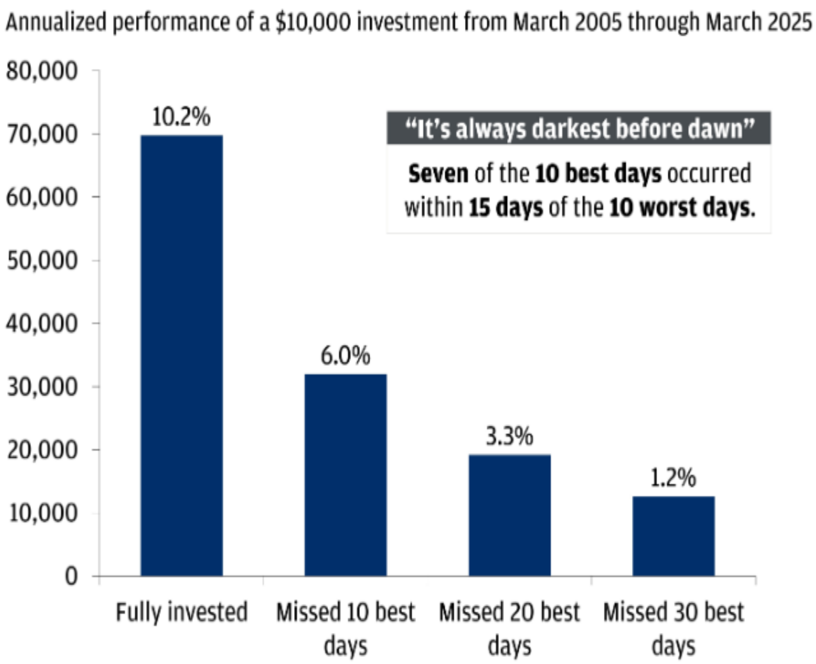
**When markets are down**, there is reason for the decline. Forward indicators look bad, bad news has hit the headlines, or make-or-break policy decisions are causing havoc. This is a scary time to put money into the market. Subjectively, **it seems like bad news will only beget more bad news, and putting money to work will just exacerbate an investor's losing streak**.

**It's never the right time to invest, but investing intelligently can be done at any time.**

1. Buying diversification doesn't need to be done at a specific time. Don't sit on the sidelines.
2. Create a portfolio such that you do not need to time the market on the way out. Be aware of cash needs and plan carefully via more stable asset allocations and credit resources.
3. Never trade on emotion. Fear peaks at market lows - the same time that asset prices are most likely to have some very good up days.

## (So) What if You Miss the Market's N Best Days? (AQR)

Reasons to avoid market timing abound. One of the main arguments is that missing even a few of the best days in the market is too costly. Fear of missing out should lead us to eschew any




compulsion to time entry and exit. The market's best days often occur after its worst days, and being out of the market on the rebound is the most harmful.[2]

While many experts have put together the above argument, it begs a question: What if instead of the best days, you miss the worst days? One in favor of market timing could produce similar results by deducting the worst days of the market and calculating those returns. If only you could just sit out the worst days, you would win big time.[3]

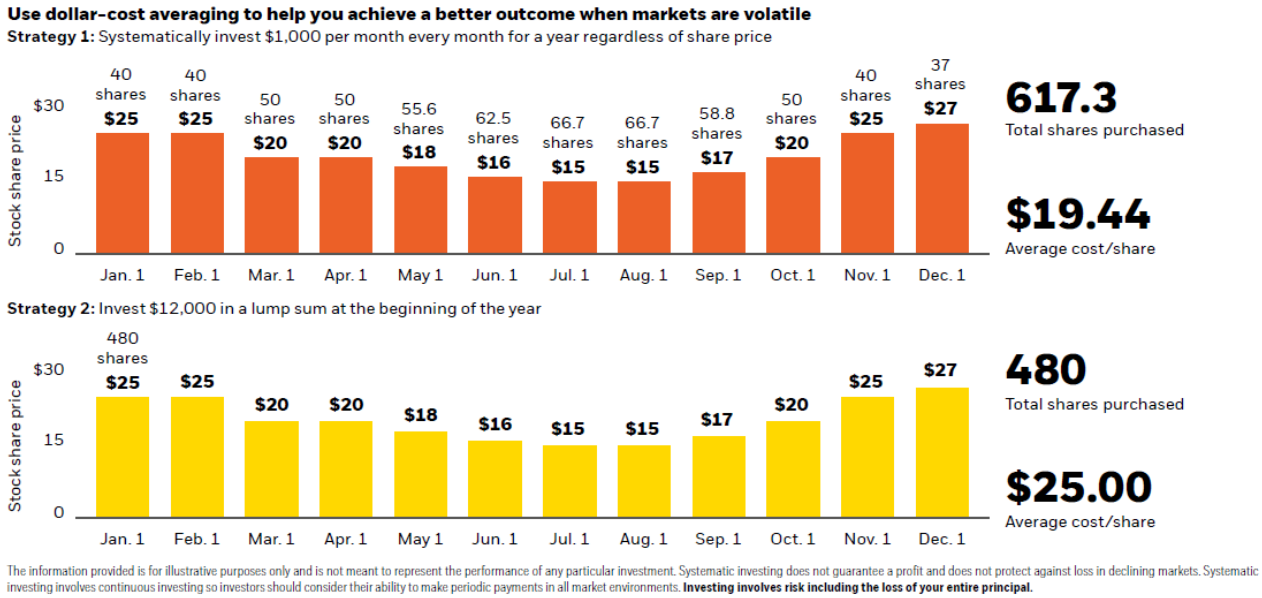
There's more to the argument, though, than a simple "fear of missing out". You really don't want to miss the good day **and** it's impossible to consistently sit out the worst ones. The reason to avoid market timing is that almost everyone is extraordinarily bad at it. Timing the market perfectly would be a boon, but trying to time the market and being behind the 8 ball is grossly counterproductive. **There is little evidence that anyone is good enough at getting in before the best days and (asymmetrically) getting out before the worst days with enough consistency over a long time horizon to both overcome the portfolio drag and costs and come out ahead year over year**. Those that have a strong edge in the short term tend to see this fade over a multi-year horizon. If you try to time the market, you're going to end up missing some of the best days. And, even though you don't want to expose yourself to the worst days, you're never going to be able to avoid them.



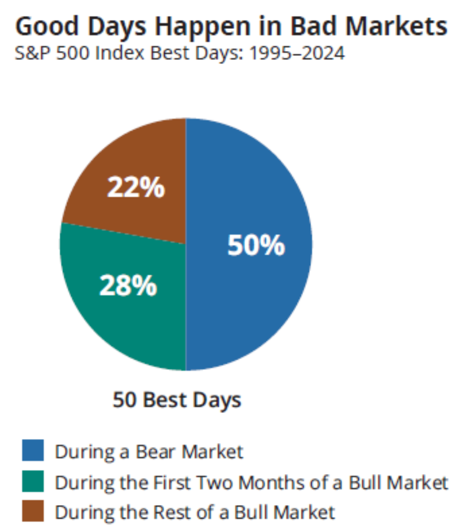
[2] J.P. Morgan Wealth Management, "Recent Stock Market Volatility Reinforces That Timing the Market is a Bad Idea", Chart below from J.P. Morgan.
[3] Clifford A. Assness, AQR Capital Management, "(So) What If You Miss the Market's N Best Days?"

## On the Best Days:

What you do in the market when it's trending up should depend on what you need from the market. When you're in the market to sell, sell on an up day. When you're in the market to buy, buy on a down day. If volatility is low, it's as good a time as ever to start putting money to work. As always, when you have no concrete objectives, stay out of your portfolio entirely. For investors accumulating assets, you could do worse than simple dollar cost averaging. Saving and investing in smaller and more frequent increments helps to take advantage of potential upside across market conditions. [4]




The harder question is what to do if you receive significant cash in a persistent bull market. Half of the best days in the market happen in bear markets, but bear markets are actually few and far between in the scheme of things. 28% of the best days happen in early bull markets, and 22% of them happen in later bull markets.[5] Long-term investors shouldn't sit out the other half of the best days. Buying in over a period of time can help create some of the benefit of dollar cost averaging and reserve some capital to buy market dips if there is volatility. Broadening portfolio diversification can help protect against downside.




## On the Worst Days: There is No Option "C"

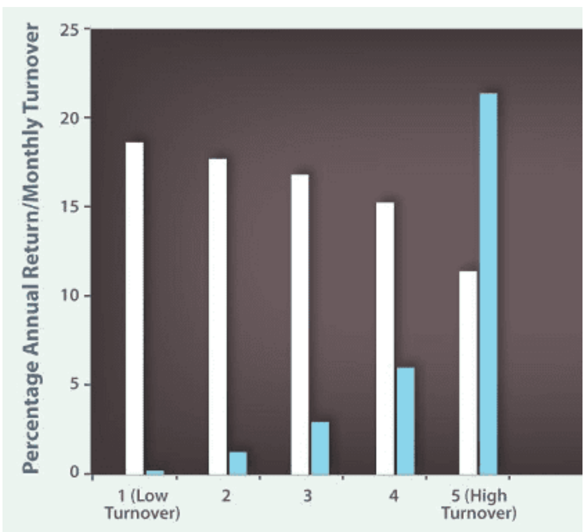
Analysts seem torn as to whether the markets will keep up their bullish track or whether this is a bubble about to burst. At some point, whether we like it or not, volatility will spike again. John C.

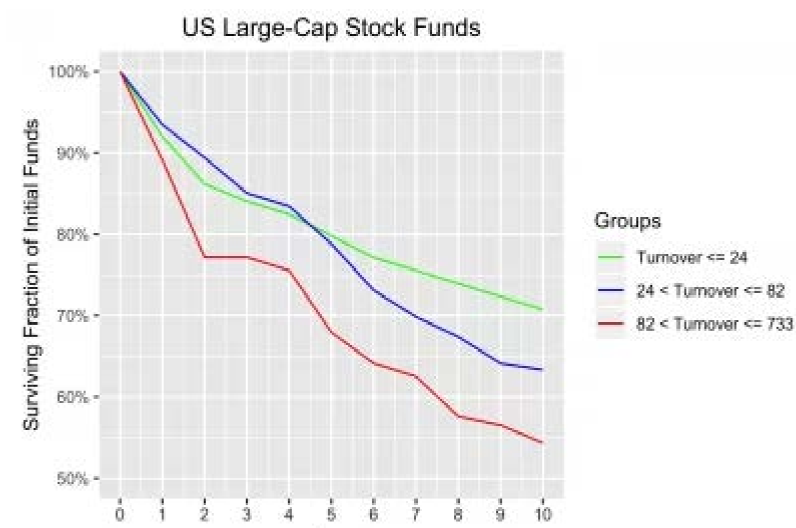
[4] Chart above from BlackRock.
[5] Chart right from Hartford.

Bogle, the Founder of Vanguard, often gave investors this advice: “Invest in the market, and DON’T PEEK”. Buy diversified investments (index funds, in his mind) and leave well enough alone.

**On the worst days, either buy (invest) or “don’t peek”. There is no option C.**

Many investors want to take action to protect themselves, which in their minds means selling. In a drive to be proactive, they end up worse off. If you’re worried the decline will go further, you might be right. But you might also be very wrong, because a full 50% of the market’s best days come in the midst of the worst troughs. If you’re right and the decline continues, the losses are only on paper. The average bear market lasts about 12 months before recovery. If you’re wrong, you may have impaired assets, missed some bullish days, and/or (to add insult to injury) incurred a tax bill because a short term bear market didn’t wipe out all of your long-term gains.




Individual investors on average suffer in proportion to their trading (above). Between poor timing and trading costs, net cumulative returns are 7% lower over a 5 year horizon. While the numbers are blearier for managed funds, there is a clear relationship between turnover and survival, with less traded large cap funds surviving at a 15+% higher rate (this differential is 30% for small cap). Among other choices, professionals don’t appear to have the skill necessary to succeed in timing trades. [6] [7]

Contrary to one’s strongest impulse, putting any excess cash to work in diversified, quality risk assets and buying in on a bear market is probabilistically the best portfolio protection you can afford yourself. Usually, market timing requires you to correctly predict two market points – the high and



[6] FifthPerson.com, Turnover and Returns
[7] https://personalfund.com/mutual-fund-and-etf-turnover-ratio/

the low - making it a fool's errand. When the market has fallen off a cliff, you can take advantage of the present time withing having the predict.

### *The Asymmetry of Investing and Divesting*

Investors in their decumulation phase should plan carefully for liquid reserves in volatile markets and have a strategy for safely maintaining reserves in bear markets so that forced asset sales don't come into play. You can buy at any time and make money in the long run, but selling at any time can compromise long run returns.

Over the long run, a diversified portfolio of high quality investments is the likely winner. Good or bad timing may put a couple extra points on the board or take them off, but this is a matter of luck. You are more likely to optimize return without actively trying to maximize it through timing strategies, including waiting for a better day to put money to work. Tomorrow likely won't be easier, and neither will the next day.