RBC Global Asset Management

Time in the market vs. timing the market

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Time is one of the best assets that many investors have, but they do not always know how to take advantage of it. This is especially true when markets turn volatile. At such times, many investors sell out of the market and/or hold their cash on the sidelines, waiting for the perfect time to invest.

It's important to understand that trying to time the market seldom works. Equity markets can get volatile in the short term, but **over the long term they tend to rise**. This means that an investor who stays in the market generally has a much higher probability of long-term success than one who tries to pick the perfect time to invest.

A tale of four investors

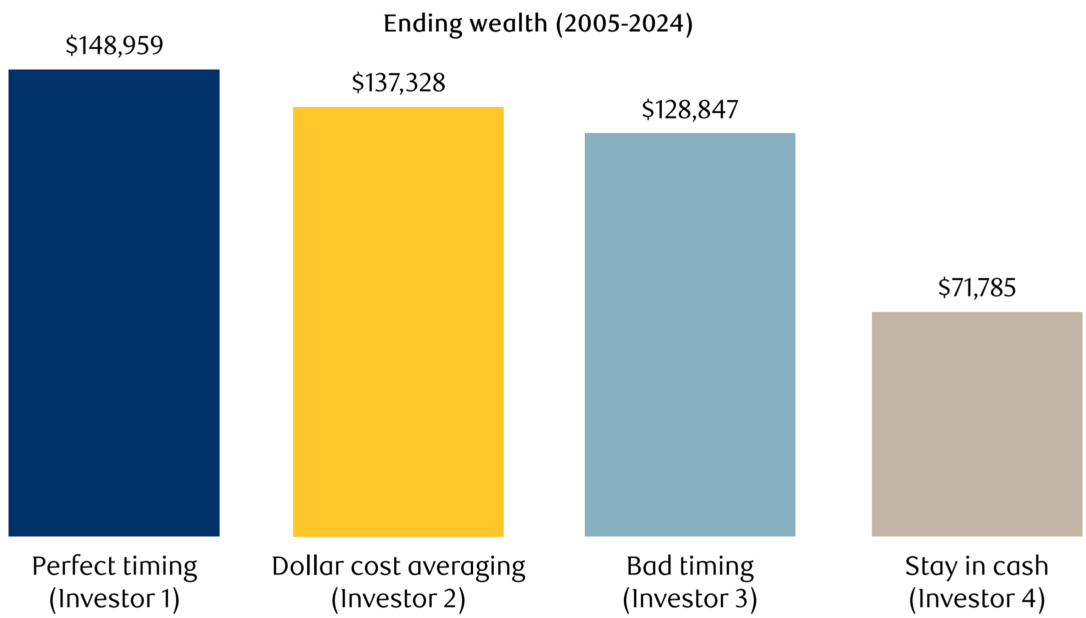
To illustrate, let's consider four hypothetical investors, with three investing in a representative balanced portfolio. Each investor made contributions of $3,000 per year into their portfolio at different times, totaling $60,000 over 20 years.

Investor 1 was a fortunate market timer, placing their funds into the market every year at the lowest point.

Investor 2 used dollar-cost averaging to invest their annual amount over 12 equal monthly contributions.

Investor 3 had the worst timing imaginable, invested their funds every year at the market's highest point.

Investor 4 left their money in interest-earning cash investments every year and never entered the markets.



Source: Morningstar, RBC GAM. For the period of January 1, 2005 to December 31, 2024. Assumes each investor contributes an annual investment of $3000 to a hypothetical balanced portfolio based on GAM's strategic asset mix for balanced global investors, rebalanced monthly as follows: 38% Fixed income: FTSE Canada Universe, 2% Cash: FTSE Canada 30-day T-bill, 15% Cdn Equity: S&P/TSX Composite TR, 25% US Equity: S&P 500 TR CAD, 15% Int'l Equity: MSCI EAFE GR CAD, 5% EM Equity: MSCI EM GR CAD. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

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The results

Even though the three balanced investors took very different approaches to investing, there is not much difference in the end result. All three investors were able to benefit from compounding over the long term.

Note that Investor 4, who held their savings in cash, was left far behind those who invested in the markets. Cash investors may not lose money, but they lose out on opportunities to grow their savings at a greater rate. This matters even more when inflation is running high and your dollars buy less each year.

The chart also illustrates that Investor 1 only modestly outperformed Investor 2, even though they were lucky enough to time the markets perfectly. The lesson here is that investing at regular intervals is an effective and potentially less stressful approach to building wealth over the long run and during any type of market.

As a long-term investor, it's important not to worry about trying to get the absolute lowest entry point when putting cash into the market. A disciplined approach is often the best way to meet your long-term financial goals.

Periods of volatility can be good times to review your financial plan and long-term goals to ensure they remain on track. Contact your advisor today to learn more about how regular investing and a long-term plan can be a simple and effective way to help you reach your goals.

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(03/2025)

018GAM112 (03-2025) FACTSHEET-TIME EN V1 03/21/2025