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You would have been forgiven if you slept for the whole of October and woke up to see that it was mostly a "normal" month in the markets - a big yawn. What you would have missed was the huge spike up in volatility in the middle of the month. The chart below, which shows the widely followed SPX Volatility Index - commonly known as the VIX – captures the huge anxiety that investors felt. It is also referred to as the "fear gauge". Indeed, the VIX was up 82% by October 15th, and world equities took it on the chin, erasing more than $5 trillion worth of value. By the end of the month it had dropped 55% from its peak, and back to "normal" levels.

The "FEAR" gauge – not so fearful

The final tally in the markets was mixed, with US, Japan and Emerging equity markets actually rising, while Germany and the UK fell a bit. Bond markets rallied meaningfully into mid month and held on to about half of those gains, with German Bund yields reaching all-time lows, and remaining close to those. The biggest market story might have been in commodities, and more specifically, the oil markets, where crude oil fell almost 12%, and has fallen a massive 25% since mid June.

Considering the kind of month October was, it is appropriate to present some thoughts on market timing versus buy-and-hold strategies.

Market timing vs buy-and-hold

Not unexpectedly, we received quite a few emails in mid October from concerned clients who saw their portfolio drop. Reading the "worrying" market news in the media added to their anxiety. We listed many of the worries that the market had to overcome in our two articles on October 20th:

- Markets The Fundamental View (http://www.elgingroup.com/index.php/markets-fundamental-view/) and
- The Technical View – Handling a Stock Market Panic (http://www.elgingroup.com/index.php/technical-view-handling-stock-market-panic/)

Ideally, we would all like to be able to sell before the markets drop and buy before they start going up. Like the Holy Grail, such perfect market timing will remain elusive.

The implications of trying to time the market can damage your portfolio significantly. We could not put it any better than an article titled *"If You Missed The Rally, Then You Just Made The Most Classic Mistake In Investing"*, published in Yahoo Finance by Sam Ro.
Below are some quotes from Sam's article:

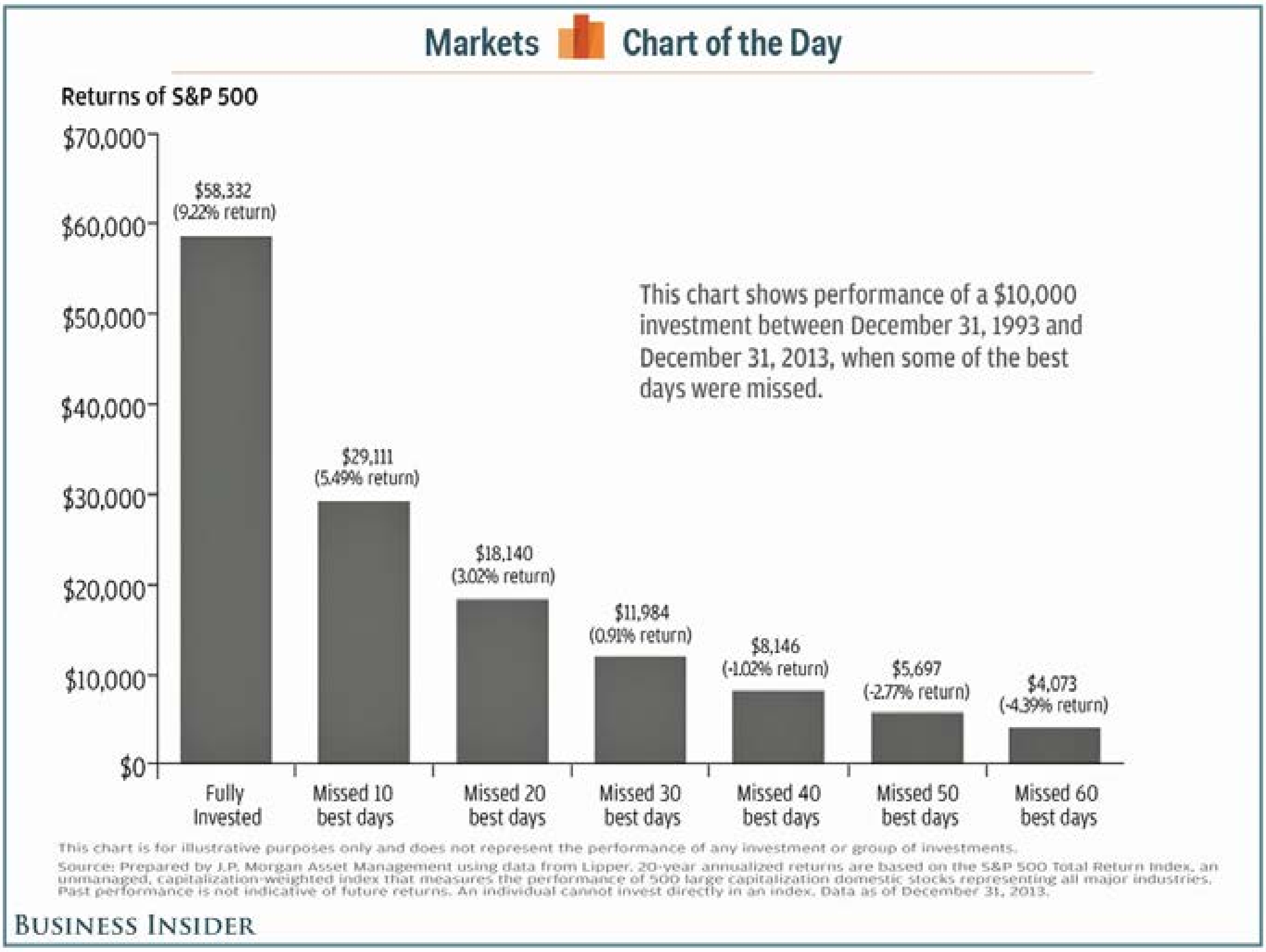
"Because of the way our brains work, most of us worried about the possibility that this correction (a drop of 9.8% in the S&P 500 from Sep 19th to Oct 15th) was turning into an outright market crash. Our instinct was to dump stocks. Surely, many investors sold and told themselves they would "wait out the volatility" on the sidelines. A confident few likely even shorted the market.

However, history shows this is the most classic mistake investors make. So, kudos to those who held on to their long positions.

As David Rosenberg recently said: "Corrections are part and parcel of the investment process, they come and go, and it is imperative to take a deep breath and realise that what is most important for building wealth is not 'timing' the market but rather 'time in' the market"

Missing A Few Good Days Will Destroy Your Long-Term Returns When volatility picks up, it's tempting to trade in and out of the market with the hope you'll protect your wealth. Unfortunately, this increases the risk you'll miss some of the best days in the market. And that can be very costly.

The chart on the next page by JPMorgan Asset Management illustrates how much an investor's returns collapsed when they missed a few of the best days in the market. They found that if an investor stayed fully invested in the S&P 500 from 1993 to 2013, they would've had a 9.2% annualized return. However, if trading resulted in missing just the ten best days during that same period, then those annualized returns would collapse to 5.4%.



Even if an investor is lucky and makes the right call to get out before step falls, it would take extreme luck to get in again at the market bottom.

The bottom line is that, if you are invested in good funds and securities according to your risk profile, then there is no need to panic when markets go through rough patches.

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