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Market Timing is Futile

Prepared by Shepherd Financial Partners

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." – Peter Lynch

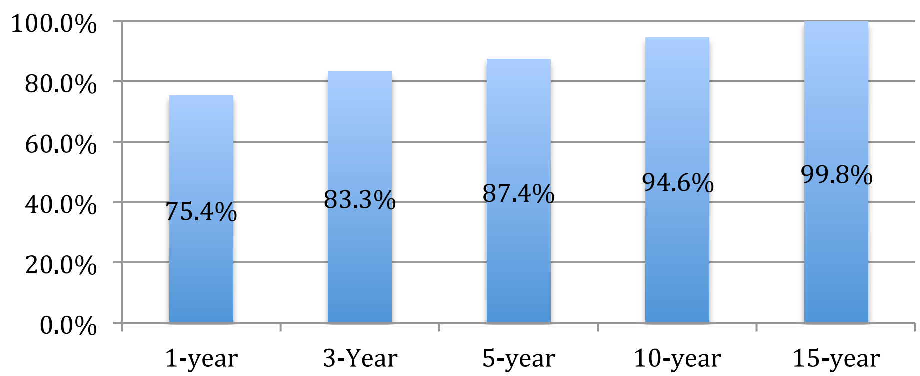
The current bull market is officially over eight years old. The S&P 500 is close to all-time highs with a valuation above its recent historical averages. Should I sell my stocks and go to cash? This is a question we get each time the stock market has a period of strong performance.

The process of selling a large percentage of equities and then waiting on the sidelines to reinvest at better entry points is known as market timing. Market timing usually sounds better in theory than in practice. To properly market time, you must get two decisions absolutely correct: when to sell out and when to buy back in. This is extraordinarily difficult to implement.

Rather than market time, equity investors with a long-term time horizon should remember that bumps along the way are common occurrences. From 1981-2016, the S&P 500's annualized total return was +11.7%. Over that same time period, the S&P 500 index declined at least 5% at some point during every year but one. (Source: Bloomberg, 12/31/16. Calendar-year returns are total returns, meaning that they do include the reinvestment of dividends.) Despite these intra-year losses, the S&P 500 Index ended with a positive total return in 30 of these 35 years.

Consider the following: **Stocks generally produce positive returns over time.**

Percentage of Time U.S. Stocks Posted Positive Returns over Rolling Periods (1926-2016)



Source: Morningstar Direct, 12/31/16. Chart is for illustrative purposes only and is not intended as investment advice. U.S.stocks are represented by the S&P 500 Index. The charts are hypothetical examples which are shown for illustrative purposes only and do not predict or depict the performance of any investment. Past performance does not guarantee future results.

The chart illustrates that equity investors will likely be rewarded with positive returns over time. From 1926-2016, U.S. Stocks produced positive returns 99.8% of the time over a 15-year rolling period. Keep in mind that this time period includes the Great Depression, the Financial Crisis, and over a dozen economic recessions. Staying invested through the volatile periods, even though it may be emotionally difficult, is often the best strategy.

How do equity returns compare to those of other asset classes? **Stocks outperform many asset classes over time.**

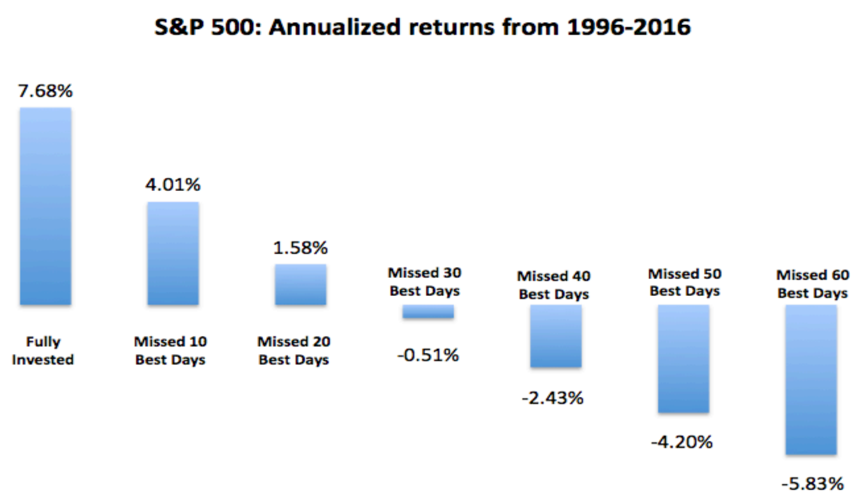
Growth of $1,000 in each of these asset classes from 1926-2016

Inflation	$13,000
US Treasury 30 day T-bills	$20,000
Real Estate	$21,000
Gold	$57,000
US Long term Treasury Bonds	$127,000
Large- Cap Stocks	$5,500,000

Source: Data Sources: Morningstar Direct, 12/31/2016. Large cap stocks represented by SBBI U.S. Large company index. Government bonds SBBI U.S. Long- term government bond index. Gold represented by U.S. dollar spot price of one troy ounce. Real estate measured by Schiller Real Estate Home Price index. Government bills represented by SBBI U.S . 30-day Treasury bills. Inflation represented by Consumer Price Index. Charts are hypothetical examples for illustrative purposes only. Past performance does not guarantee future results.

The data shows the historical advantage of maintaining an allocation to equities over a long time period. Of the six asset classes listed above, stocks are the most volatile, but also offer the most potential upside. Of course, the stock returns were not a straight line as there were plenty of corrections and bear markets along the way. However, investors who were willing to accept the volatility were rewarded with higher returns. Although past performance is no guarantee of future results, investors with a longer time horizon should favor stocks over many other asset classes.

Should I wait for a correction and then buy in? **Missing the best days is expensive.**



Sources: Morningstar Direct, as of 12/31/2016. The charts are hypothetical examples, which are shown for illustrative purposes only and do not predict or depict the performance of any investment. Past performance does not guarantee future results.

From 1996 – 2016, if you were fully invested in U.S. equities represented by the S&P 500, you would have earned an average annualized return of 7.68%. Yet over that same time period, if you missed the 30 best performing days for the S&P 500, your return would have been -0.51%, and if you missed the 60 best days, you would have returned -5.83%. Adding to the difficulty of market timing is that the best days often occur during times of market stress. Despite being at the epicenter of the Financial Crisis, the last four months of 2008 held 8 of the 20 best days in the market over the last one hundred years. Investors will often miss the best days while waiting for the market to drop more, and thus waiting for a correction to buy is likely a losing strategy.

Should I be worried that the market is close to an all-time high? **New Highs Are Quite Common.**

From 1957-2016 the S&P 500 hit 964 new highs. This means that on average the index hits a new high 16 times per year. New highs are quite common and do not always lead to market drops or corrections. The reality is that no one is sure if a new high is the market top or the continuation of a secular bull market. The hosts of CNBC or other financial news networks might try and tell you different, but they are paid for ratings and not for providing sound investment advice.

Where do we go from here?

We have demonstrated that stocks generally perform well over long-time periods despite common periods of stress, and that market timing is nearly impossible. At Shepherd Financial Partners, we advise maintaining a long-term outlook and to avoid getting caught up in the "crisis of the day." Real wealth is created through time in the market, not attempting to call the tops and bottoms. The central tenet of our investment philosophy is that asset allocation drives 94% of portfolio return performance. We apply a disciplined approach to asset allocation and search for securities that are undervalued in order to protect our client's interests over market cycles.

The SFP Investment Team manages your account in accordance with an investment objective agreed upon by you and your advisor. Your account and objective take into consideration your risk tolerance, return requirement, time horizon, tax situation, liquidity needs, and any unique circumstances. We encourage you to speak with your advisor if any of your personal or financial circumstances change.

Source:

Charts and some information derived from Oppenheimer Funds Compelling Wealth Management Conversations 2017.

Disclosure:

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. The economic forecasts set forth in the presentation may not develop as predicted. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not protect against market risk.

No strategy, including asset allocation, assures success or protects against loss. Investing involves risk, including potential loss of principal.

Fixed income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Investments in securities of real estate companies may be especially volatile.

The fast price swings in commodities will result in significant volatility in an investor's holdings.

Index definitions:

The S & P 500 is a market-capitalization-weighted index of the 500 largest domestic U.S. stocks.

SBBI U.S. Large company stock index is an unmanaged index of stocks of large U.S. Companies.

SBBI U.S. Long Term government bond index is an unmanaged index generally representative of the bond market.

SBBI U.S. Small company stock index is an unmanaged index of stocks of small U.S. Companies.

SBBI U.S. (30 day) treasury bills is generally representative of the rate of return on a savings investment.

Shiller Home price index tracks the changes in home prices throughout the U.S.

The gold spot price is quoted as U.S. dollars per troy ounce.