

Tough day in the markets? You have two choices: buy or hold.

If you've spent any time on a Canadian highway on a Friday afternoon, then you've seen the "traffic timers". They're the drivers who pull in and out of lanes – depending on which lane appears to be moving more quickly – in an effort to gain a few minutes on their travel time. They may even change routes to avoid perceived delays, only to find themselves on dead end streets or unmarked gravel roads, heading east instead of west.

Remind you of any investors you know? Making investment decisions by trying to "time" the market can involve the same degree of chaos and confusion.

Researchers have confirmed, over and over again, that investors who try to switch lanes – anticipating market ups and downs – rarely beat the "buy and hold" investor.

In the past several months, the volatility of the markets has tested the patience and the will of even the most steadfast investor. Investors feel they should be *doing* something: the value of their equity investment is sliding with the downturns in the markets. The truth is that the answer is the same today as it was last year, or even 10 years ago. You should build a long-term plan based on asset allocation, you should understand that equity markets can be volatile, and then you should buy and hold.

Market ups and downs are extremely unpredictable, and the cost of being out of the market – waiting for the right buy opportunity – is very, very high.

Let's use the Toronto Stock Exchange (TSE) as an example. The TSE 300 posted an average annual compound return of 10.6 per cent in the fifteen years between 1985 and 2000. That's more than 3900 trading days. If an investor missed the top ten trading days in that period, the total return drops to 8%. Leave out the top twenty trading days, and the return plummets to 3.66 per cent.

With the best and worst days clustered together, a few missteps in your timing could mean doubling your market losses – not doubling your gains.

It's human nature to react to bad news in the markets by selling your investments. But – as a good look at market history will confirm – the best time to buy is when it feels like the right time to sell.