The Timeless Allure of Stock-Market Timers

Many investors know better than to rely on bold market forecasts. But they can't turn away.

By
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Twelve days ago, as the broader U.S. stock market was in the midst of its first sharp decline in years, popular newsletter editor Dennis Gartman appeared on a CNBC show and advised viewers to prepare for a bear market.

"You stay in cash and you stay in short-term bonds and you don't move out," Gartman advised viewers before adding "this is the start of a bear market, and it could last for several more months I'm afraid."

But stocks quickly turned around and began to move toward the heights last seen in September. A chastened Gartman admitted late last week on another CNBC show that his bear-market call was all wrong. However, he's still not willing to go long, instead maintaining a "neutral" position on the market as a whole, according to a CNBC.com report on Gartman's rapid change of heart.

Asked by CNBC what he missed about the current character of the market, he replied "I'm not sure what I missed. I really don't know….This is the type of volatility that is absolutely beyond my ken. I've only been at this for 40-some years, so I'm relatively new to it. But quite honestly, I've never seen anything like the last two weeks."

While the volatility may have been beyond Gartman's ken, it didn't humble him enough to beg off the game of predicting where the stock market is heading. At least he hasn't met the fate that Dante reserved for soothsayers in his classic 14th century work, *The Divine Comedy*: Those who attempt to divine the future should have their heads twisted around and be forced to walk backwards for eternity.

But it would be wrong to just pick on Gartman. He is just one of a long list of market pundits who attempt to do what many respected investment minds argue is impossible—predict with some degree of confidence where stocks as a whole are heading and then often recommend a sharp shift in one's asset allocation to play a bull or bear scenario.

Market timers will often use stock charts, fundamental analysis, or economic trends to divine where stocks are heading in the coming months. Pundits such as Nouriel Roubini, Laszlo Birinyi, Doug Kass, John Hussman, are well known for their market calls, and the list goes on. (Check out Website Pundit Tracker to learn more about their calls.)

Even Jim Cramer, a popular pundit with CNBC and TheStreet known mostly for individual stock predictions, will occasionally make broad market timing calls.

But many seasoned investors, including Warren Buffett, argue that it's a big mistake to shift radically in and out of stocks based on nothing more than an educated guess about what the future will bring. The future, after all, is a complex beast to behold, with an incalculable number of shifting variables. How many investors in late 2007 saw the Great Recession and a dramatic and deep collapse in the stock market coming?

"My clients pay me a lot of money so I can tell them that I don't know the future," says Allan Roth, a certified financial planner based in Colorado Springs, Colo. "The more we try to time the market, the worse we do."

Roth advises clients to eschew the market-timing game. Like others in his profession, Roth helps his clients come up with an asset-allocation plan consistent with their personal circumstances and to make modest periodic shifts when stocks exceed or fall below target weightings. He argues that this so-called rebalancing is a form of market timing, but a modest and methodical form of it.

Still, he understands why many investors are enthralled by the market calls of experienced and confident investors, however misguided they may often be.

"Humans hate randomness, the idea that we lack control and don't really know what the future holds," he says. "It stimulates excitement to feel like we are in control of the future."

And financial news organizations from CNBC to print and digital news outlets are all too happy to give viewers and readers what they seem to want. Besides, if publications, Websites, and television networks simply told investors to buy and hold, with periodic rebalancing, it would be that much harder to fill pages and airtime.

Even *Barron's*, though known primarily for its rigorous analysis of individual stocks, can be a forum for stock-market timers on occasion. Twice a year, the magazine prepares a lengthy story detailing the market outlook of 10 top Wall Street strategists that the magazine interviews. These strategists will often predict where the major stock indexes will end up, down to a number.

And a few members of the *Barron's* Roundtable, most notably Marc Faber, are often willing to make market calls in addition to stock recommendations.

If ever there was someone with a personal interest in seeing value in market timing, it's Mark Hulbert, who has made a business out of tracking the performance of investment newsletters since 1980. Many of these newsletters engage in market timing.

(Hulbert is also a columnist for Barrons.com and MarketWatch.)

But Hulbert thinks it's an inherently flawed approach to investing. In March 2013, Hulbert wrote a column for Barrons.com in which he studied the returns since October 2007 of the more than 100 market-timing newsletters and Web-based advisors monitored by the Hulbert Financial Digest (HFD).

Among his conclusions reached in his story last year: Only one in four of the HFD-monitored market timers succeeded in turning a small profit over the last five-and-a-half years and, therefore, beat a buy-and-hold strategy. “But none of them did so by getting out at or near the top and getting in at or near the bottom,” he concluded.

On Wednesday, Hulbert said that it’s easy to time markets occasionally but not consistently.

He points to Bob Brinker, a popular nationwide radio host and market timer who correctly called the top of the bull market in January 2000 and called the bottom in March 2003. But Brinker didn’t see the credit crisis coming and thus remained bullish on stocks from October 2007 through March 2009. And until that very big mistake, writes Hulbert, he was among the best market timers working.

“The knock about market timing is that you have to get out at the right time and then get back in time near the bottom,” Hulbert says. “Even among those few who get out at the right time, they don’t get back in at the right time.”