Letters to the Editor
What the “Missing Out” Argument Misses

June 2, 2009

Ted Wong’s article last week, What the “Missing Out” Argument Misses, drew a number of responses from our readers.

Dear Editor,

Congratulations to Mr. Wong for his piece in Advisor Perspectives. I have long tried to argue this point with clients and colleagues, but have never seen anyone make a concise study of the topic.

Jack Brkich III
JMB Financial Managers, Inc.
Irvine, CA

Dear Editor,

I read Theodore Wong’s article, and I am curious if he has a working implementation plan to make this all happen? Data mining past performance does not guarantee better future performance. Did he help his clients avoid the meltdown of last October and November and this February?

Thanks,

Jim Schwartz, CFP, CDFA
Strategic Wealth Advisors, LLC
Scottsdale, AZ

Ted Wong replies:
There is no data mining involved because all one has to do is to sort percentages of monthly change over 137 years and you would come to the same conclusions. The only data mining was done by the buy-and-hold advocates who only searched for results in their favor, i.e. "missing the best days." I do not claim any ability to predict the future. I am skeptical of any so-called market guru who claims that he can foretell the Dow’s year end close. I am working on several future articles to examine if the moving average system that many active managers rely on is as good as they claim. Stay tuned!

Dear Editor,

First, I enjoyed Mr. Wong's article, not for the conclusion, but the depth of time used to qualify the assumptions. I did such a run on my home computer in the 1990's and came to a similar conclusion using only 20 years history - not anywhere as sophisticated a run. My conclusion was also not as sophisticated, but basically it showed that the time I spent out of the market during down drafts was more important than the time spent in the market during bull runs. I am just an average Joel, and this conclusion caused me to stay in cash equivalents and bonds from 1999 to 2006.

I must admit I doubted myself each and every day. So I opened a "play" account to test alternative strategies, which proceeded to make no returns on over the same period of years.

I too use the 10 month moving average as a super long-term trend indicator, and three month trailing returns as the long-term trend indicator. I use weekly, same period returns for the intermediate term, which is by far strongest indicator. I use daily returns to determine my buying strategy. I am a trend investor and not a day trader so I use nothing less in trading time.

Best regards,

Joel Dee
Berlin, Germany

Dear Editor,

Below is an excerpt from your article. It wasn't exactly correct. Cash and US Treasury investments did well in 2008.

> "In 2008, all asset classes plummeted, including US equities (all styles, sizes, and sectors), emerging markets, bonds, real estates, commodities, and currencies. The only uncorrelated asset during a systemic crisis is cash. The prudent way to reduce risk is to rebalance your portfolio with cash equivalents. Isn't that called market timing?"

Thanks for putting the article together.

Kathy Somes, CFA
Freedom One Financial Group
Clarkston, MI

Dear Editor,

I'm a fellow advisor and engineer (MSME '02). It gives me great pleasure to see someone finally echo my thoughts about missing the worst days of the stock market. Since research is your passion, I'm sure you are aware of the impact of "recency bias" and how it shapes peoples views. Following that thought process, if investors/advisors just look at the last 10 years, it doesn't take a rocket scientist to see that missing the dramatic pull backs from 2000 to 2002 and 2008 would have a profoundly positive impact on investment returns.

Finally I agree with the moving average comment. I personally use the 200-day moving average and, by doing so, started moving clients' assets to the sidelines on December 27th of 2007. I couldn't have predicted the bear market we've had, but I didn't have to. I just followed the trend.

Maurice Wilson
Wilson Wealth Management Group, LLC
Charlotte, NC

Dear Editor,

I enjoyed Mr. Wong's article and intend to refer to it in my weekly hotline today (circulation about 10,000). Few investors seem to get the rest of the story from the "Missing the best..." propaganda. I wrote an article in the Journal of Investing (Volume 6, Number 2, Summer 1997) on the subject.

The Market Timing Association you facetiously refer to does exist. Formed in 1989, it used to be called the Society of Asset Allocators and Fund Timers, Inc. ("SAAFTI pronounced Safety) but the Spitzer mutual fund scandal in 2004 precipitated a name change to the National Association of Active Investment Managers (NAAIM pronounced Name). It's relatively inexpensive, and includes many like-minded individuals with whom you would enjoy networking. I suggest you check it out at NAAIM.ORG.

Jerry Wagner
Flexible Plan Investments, Ltd.
Bloomfield Hills, MI