

On Market Timing and Whiskey

By J.J. Abodeely

October 25, 2011

Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.

In 1952, Noah S. “Soggy” Sweat, Jr. a Mississippi legislator, gave a famous [speech](#) addressing the controversial subject of prohibition. Although it was federally repealed by the 21st amendment in 1933, prohibition remained in effect in his state until the 1960s. The consummate politician, Soggy tried to appeal to advocates on both sides of the issue, illustrating a lesson that advisors today will surely appreciate: In order to get at the substance of a contentious issue, sometimes you have reframe the question.



Noah S. “Soggy” Sweat, Jr.

The debate amongst investors over the appropriateness of market timing today is as contentious as the debate over prohibition was in Soggy’s day. Perhaps his relativistic view can shed some light.

My friends, I had not intended to discuss this controversial subject at this particular time. However, I want you to know that I do not shun controversy. On the contrary, I will take a stand on any issue at any time, regardless of how fraught with controversy it might be. You have asked me how I feel about market timing. All right, here is how I feel about market timing: If when you say market timing you mean the loser’s game, the fool’s errand, the speculator’s effort that separates savers from their capital, turns investors into gamblers, lines the greedy pockets of brokers, strategists, and newsletter writers, challenges the irrefutable logic of efficient markets, yea, literally plunders the wealth from widows and retirees; if you mean the evil action that disrupts the well counseled man and woman from the pinnacle of appropriate strategic asset allocation, balanced objectives, long-term orientation into the bottomless pit of fear, and greed, and meaningless noise, high expenses, and tax inefficiency, and short-termism, then certainly I am against it.

But, if when you say market timing, you mean assessing fundamental value compared to price, favoring undervalued assets while avoiding overvalued ones, always demanding a margin of safety and being in cash when none exists; if you mean being opportunistic and forward looking, buying low and selling high; if you mean the activity which saves investors from catastrophic and permanent losses of capital, achieving positive absolute returns, the endeavor that avoids following the herd up the mountain of excess and over the cliff of despair, favoring instead consistent compounding of modest returns, and the ability to sleep well at night; if you mean that undertaking which has provided capital as the gasoline for the engines of economic growth and prosperity, protected purchasing power



and met future liabilities, funded robust retirements, sustainable wealth transfer, and philanthropic endowments, then certainly I am for it.

This is my stand. I will not retreat from it. I will not compromise.

Market timing, like any contentious issue, is complicated. Advocates on either side of the issue want to make it black and white– “obviously no one can successfully time the market, or else he’d be the richest man in the world!” or “on average active managers underperform the market.” But framed the right way, market timing becomes something that *all* investors should do, which is equally dangerous.

Like whiskey, the answer to the question of market timing depends on how it is used– use it in moderation and with careful consideration and objective analysis and it will yield positive outcomes that far exceed the risks. In fact, Graham and Dodd in the classic *Security Analysis* make the point:

“It is our view that stock market timing cannot be done with general success, unless the time to buy is related to an attractive price level, as measured by analytical standards. Similarly, the investor must take his cue to sell... from an advance in the price level beyond a point justified by objective standards of value.”

Most investors should not time markets, because they are not analytically or emotionally equipped to separate the concepts of price and value, much in the same way teenagers should not drink whiskey because they are not equipped to drink responsibly and enjoy the pleasure it brings! For whiskey and market timing prohibitionists alike, there are more than a few accomplished aficionados who are willing to show you the light.

J.J. Abodeely, CFA, CAIA is a director and portfolio manager at [Sitka Pacific Capital Management](#), an absolute return-oriented separate account asset manager. He writes at [www.valuerestorationproject.com](#).

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>