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For a complete historical record of the FIR Portfolio's holdings and performance, visit FinancialIntelligenceReport.com and click on "FIR Historic Results Table" under "Special Reports."

Yes, It Is Possible to Time the Markets

By David N. Frazier

Numerous portfolio managers, Wall Street analysts, financial advisers, and other so-called financial market experts claim that nobody can time the market — i.e., that no one can accurately determine the most favorable times to get into and out of stocks.

Yet, my experience reveals clearly that those who make those claims are really saying one of the following: either that they, personally, are unable to time the market, or that even if they were able to do so, they would still advise their clients to stay fully invested at all times, because stock prices always rise over the long term, and because they don't get paid for any client funds held in cash.

Those experts fail to mention that, instead of trending higher, stock prices, in general, moved in a volatile sideways range for two periods of more than 15 years, and for two periods of more than six years, over the past 113 years. Worse yet, those who invested in stocks that comprised the Dow Jones Industrial Average at the peak of the Dow in 1929, and who followed a buy-and-hold strategy, would not have broken even on their investments until 25 years later, in 1954.

Many advisers will argue that investors who try to time the market by going to cash during bear periods will generate much lower returns over the long term by failing to participate in big rallies, and to get back into stocks at a more favorable time. Those same experts never mention the returns that investors would generate if they were to avoid big down periods in the stock market.

As an example, a study by InvesTech Research showed that a $10 investment allocated to cash during the 30 worst-performing months of the S&P 500 index from January 1, 1927, to October 31, 2005, and allocated to a broad-based portfolio of common stocks during all other periods throughout that span, would have grown to $1,890,218 by October 2005. By comparison, a $10 investment in a broad-based portfolio of common stocks during that entire period would have grown to only $15,717.

This shows that investors who successfully time the market, by using a combination of fundamental, technical, and economic indicators to forecast the future direction of stocks, can generate much higher returns than those who simply stick to a buy-and-hold strategy.

Yet the likelihood of an investor being so prescient as to allocate all of his or her assets to cash immediately prior to substantial downturns in stock prices is remote, to say the least. Realizing that fact, InvesTech studied the results of going to cash during both the 30 best and 30 worst months of stock market performance from January 1927 to October 2005.

The study found that by doing so, the same $10 investment during January 1927 would have grown to $26,619 by October 2005 compared to $15,717 generated by a buy-and-hold strategy.

I conducted a similar study that showed the results investors would have achieved from December 1969 to December 2011 by adhering to the readings on my Tactical Asset & Sector Allocation Model (and associated Buy-Sell Index), by becoming 100% invested in stocks when that model gave a "buy" signal, and getting out of stocks and allocating 100% of one's financial market assets to money-market securities when that model registered a "sell" signal.

That study found that a $10,000 investment using my market-timing model would have grown to $1,078,620 from December 31, 1969, to December 31, 2011. The same $10,000 invested at all times in the S&P 500 Total Return Index would have grown to only $507,277.

Better yet, the same $10,000 invested in a diversified portfolio of small-cap stocks, represented by the T. Rowe Price Small Cap Fund (OTCFX), which tends to substantially outperform large-cap stocks over periods greater than 10 years, would have grown to $2,157,388 at the end of 2011. That's the reason I advise investors to invest primarily in small-cap stocks during bull markets.

Now, I realize that accurately timing the market isn't easy. But certain well-known hedge fund managers, such as George Soros and Paul Tudor Jones, have been very successful in forecasting major turning points in the markets.

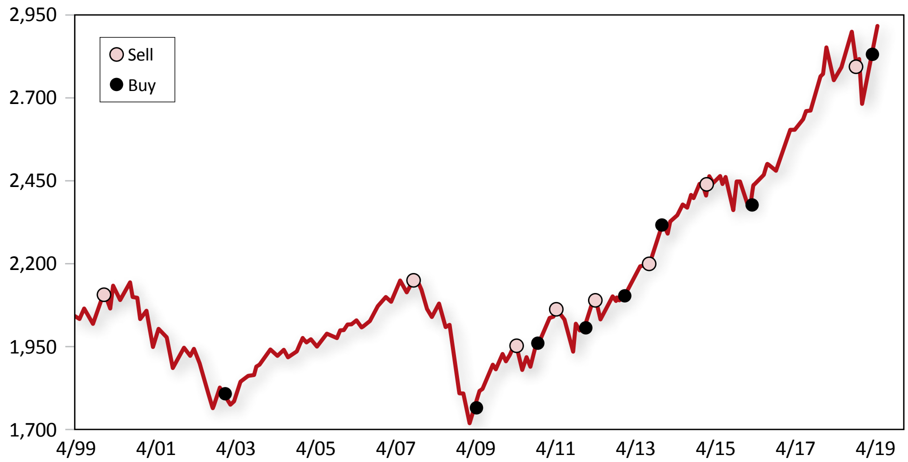
Soros' Quantum Fund is the best-performing hedge fund ever, generating a 20% compounded average annual rate (net of management fees) during its 32-year existence. Meanwhile, Jones' Tudor BVI Global Fund has generated approximately a 17% compounded average annual return since its inception in 1987.

I have also been accurate in timing the market, advising investors to exit stocks only three weeks before the major U.S. stock market indexes peaked on October 9, 2007, and to get back into stocks only two weeks after they bottomed on March 9, 2009.

I don't expect to always be exact in forecasting the tops and bottoms in stock prices. My goal is to help investors avoid the big downturns and to profit from the major upturns in the markets, and to invest in the right asset classes, economic sectors, and individual securities at the most-favorable times. And as you can see from the chart above of my proprietary "Buy-Sell Index," I've been successful in accomplishing that goal over the past 20 years.

So, my advice to investors who are currently following the buy-and-hold strategy recommended by most "experts" is to fire those advisers and to hire one who has demonstrated that he or she has accurately timed the market for several years. ■

My Investment-Timing Recommendations Versus S&P 500 Index



Although it may be difficult to pinpoint the exact top and bottom of the market, my record shows that it is possible to enter and exit at favorable times, yielding substantial returns compared to a traditional buy-and-hold strategy.

SOURCE: David Frazier

David Frazier is the President and Chief Market Strategist of Frazier & Mayer Research, LLC, an independent investment research firm that offers customized research and analytical services to registered investment advisors, hedge funds and serious individual investors.