Tatton

Investment Management

Should I phase my investments?

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President Trump's months in power has created an achievement that he is not boasting about – stock market uncertainty – and no-one likes market uncertainty. For investors, this creates additional concerns, perhaps not about investing in general, but when to invest through valid concerns of immediately losing money. A natural response is to sit it out and wait for the uncertainty and potentially invest or drip feed investments to spread out the risk.

Choosing to invest is a big decision, and as we know should only be made by clients within their risk tolerance. Market uncertainty adds emotional risk and worry that geopolitics and the frequent negative news will cause sustained market volatility.

An option that can lessen the impact of sudden market moves on investments is to invest smaller amounts over a period of time. But, is it a phased approach or investing the capital as one lump sum the right approach?

In all likelihood, phased investments will lead to lower long-term returns than a lump sum over the long term – but phasing might calm tentative investors' nerves. As investment managers our analysis shows that "time in the market" produces greater returns than "timing the market", but investors should always be comfortable with decisions over where to put their money. Emotional risk, particularly during periods of uncertainty, should be recognised as a major factor in investment decisions.

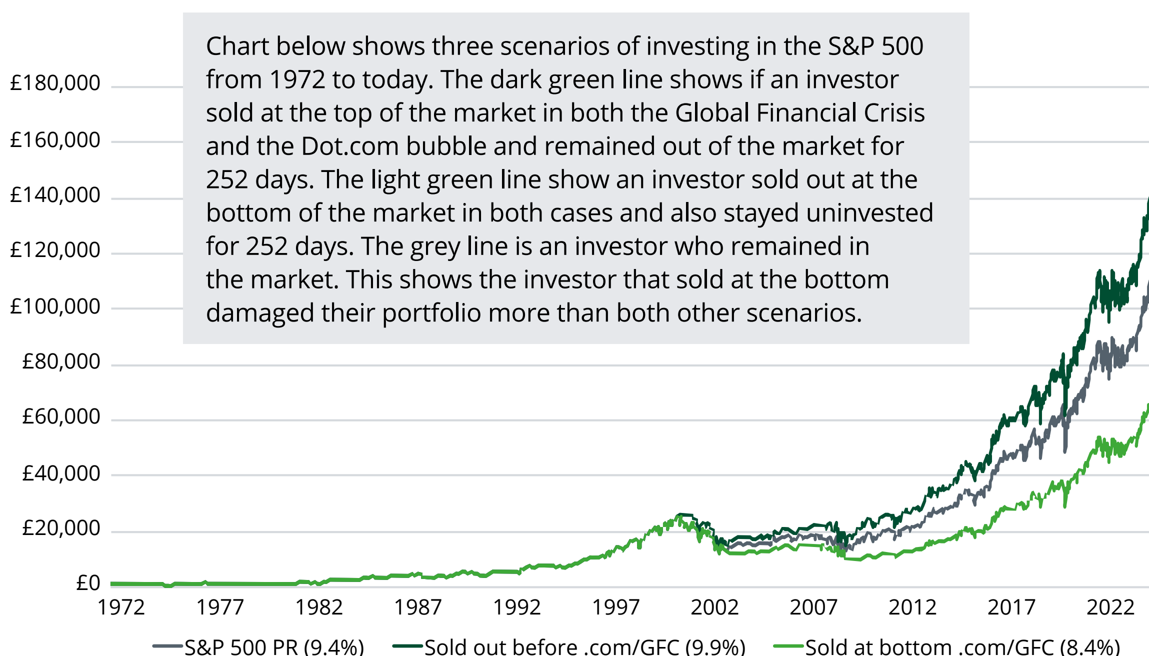


Chart below shows three scenarios of investing in the S&P 500 from 1972 to today. The dark green line shows if an investor sold at the top of the market in both the Global Financial Crisis and the Dot.com bubble and remained out of the market for 252 days. The light green line show an investor sold out at the bottom of the market in both cases and also stayed uninvested for 252 days. The grey line is an investor who remained in the market. This shows the investor that sold at the bottom damaged their portfolio more than both other scenarios.

S&P 500 PR in GBP as at 28/02/25

Source: Morningstar Direct over 53 years between Jan 1972 & Feb 2025.
Assumed 0% return for 252 days, with annualised return for each scenario. Series rebased to £1,000

Please note: This document is designed to provide background information on various investment strategies. Please remember that past performance does not guarantee future performance, and the value of investments can go down as well as up.

PHASING V LUMP SUM – THE EVIDENCE

Phasing investments is sometimes called "cost averaging", because investors are effectively buying assets multiple times at different values and that averages out the price. Cost averaging becomes relevant for investors if they want to invest capital but are worried about near-term volatility or downward swings, for example.

More cautious Investors can sometimes benefit from cost averaging – in terms of the balance of risks versus rewards. Overall, risk assets usually rise in value over the long-term, but short-term falls can feel painful. If an investor care more about avoiding losses than achieving gains, increasing the time period to invest can help acclimatise to market increases and falls.

However, over the years numerous research projects have shown that over time 'cost averaging' lowers average returns.

GUESSING THE GOOD DAYS AND BAD IS THE HARD PART

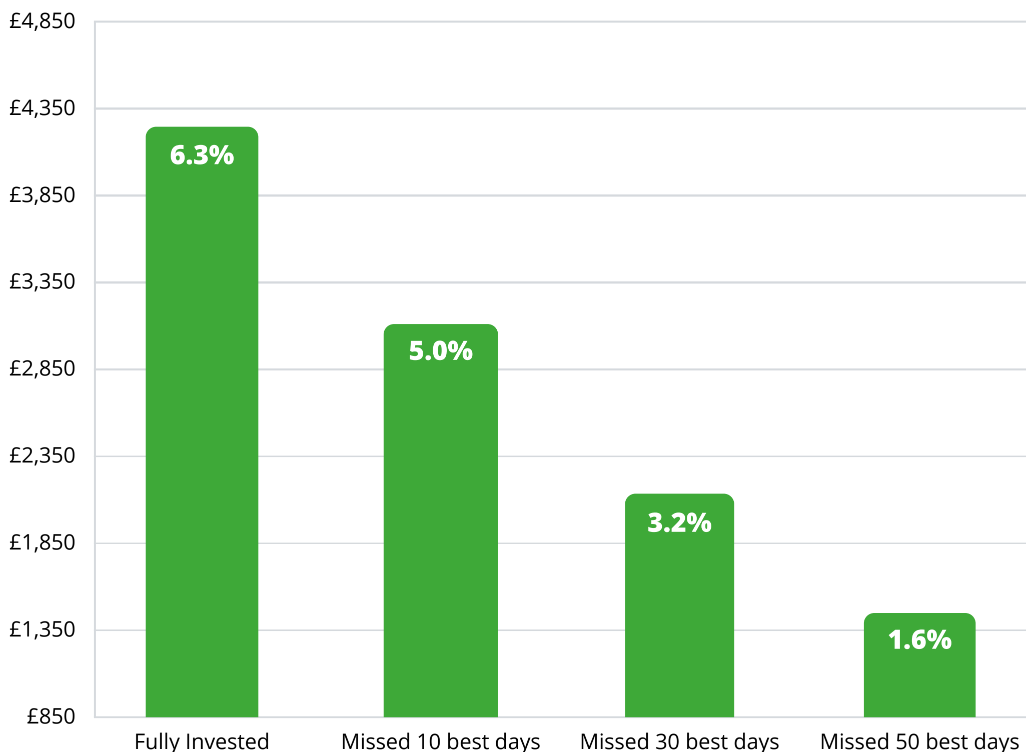
Even at the best of times, gains and losses for risk assets are unevenly spread across the year. Being fully invested, can even this out but if investments are phased investors might miss out on the good days. Our own research shows that, between 2001 and the start of 2025, missing out on just a few of the best-performing days significantly lowered annualised portfolio returns.

The 10 worst days between 2001 and October 2023 were:

Date	Return %
12/03/20	-5.4
09/03/20	-4.6
15/10/08	-4.0
16/03/20	-4.0
10/10/08	-3.5
06/10/08	-3.2
29/09/08	-3.0
19/11/08	-2.9
06/11/08	-2.8
18/03/20	-2.8

Source: Tatton / Morningstar

Missing the worst days for a 60/40 Portfolio



Source: Morningstar Direct as at 31/01/25.
Value of a £1,000 investment over 23 years between 2001 and 2025 with annualised return (%).

Of course, being fully invested for the good days and avoiding the worst days, portfolio returns improved dramatically. But figuring out in advance which days will be good and bad is the hard part – as short-term market moves can happen sometimes, it seems, at random. Maximising returns through timing investments is exceptionally hard in practice, because often the gaps between the very good and the very bad are only a few days.

Swings and roundabouts

Date	Up & Down days (%)	
19/09/08	3.6	10 days between
29/09/08	-3	
06/10/08	-3.2	
10/10/08	-3.5	3 days between
13/10/08	3.9	
15/10/08	-4	5 days between
20/10/08	2.7	
28/10/08	2.5	9 days between
06/11/08	-2.8	
19/11/08	-2.9	5 days between
24/11/08	3.5	
08/12/08	2.6	
10/03/09	2.7	

Date	Up & Down days (%)	
09/03/20	-4.6	
12/03/20	-5.4	
16/03/20	-4	
18/03/20	-2.8	6 days between
24/03/20	4	
06/04/20	2.7	

Source: Tatton / Morningstar

TIME IN THE MARKET

Prices for risk assets can be volatile in the short-term, and investing in them always means putting capital at risk. Historically, those risks have come with rewards, and assets like stocks have consistently trended upwards over the long-term. Past performance does not guarantee future performance, and the value of investments can go down as well as up.

Psychological factors can obscure this long-term trend. Typically, humans are risk-averse, recent-biased, survivor-biased and prone to jumping on bandwagons. Those things can often make people more worried about near-term risks than emotionless analysis would suggest is appropriate.

That's why our long-term investment stewardship is based on the principle of "time in the market" over "timing the market". Timing the market isn't impossible (many short-term traders make their living doing so) but it requires a huge amount of foresight and psychological discipline. Anyone that can do so flawlessly has cracked the code to risk-free money, so hardly needs a diversified portfolio in the first place!

Among the mere mortals, time in the market is a simple and often effective strategy, but please remember past performance does not guarantee future performance, and the value of investments can go down, as well as up.

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