

The Perils of Market Timing: How Investors Undermine Their Own Returns

I often hear of investors seeking that “good financial advisor,” the one who as if by magic knows exactly when and what to buy and when to sell – he’ll make you rich while others will simply make money from you in fees. This “good advisor” is an expert at both stock-picking and market timing – and that sounds plausible, thanks to Hollywood storytelling and also because no one ever brags about financial losses, either their own or those they create for clients. I also hear, especially when markets are hitting all-time highs, how even that “good advisor” isn’t needed – investors can simply do it themselves, score huge gains and pay nearly nothing in fees. Decades of real financial data, however, show that individual investors who try to time the markets often end up doing the opposite and achieve significant underperformance compared to those who simply stayed invested. I’ve organized data compiled by investor behaviour analysts at DALBAR and fund-flow trackers at Investment Company Institute (ICI) to highlight why patience typically outperforms prediction.

The Performance Gap: Investors vs. the Market

One of the most compelling sources of evidence that patience outperforms predictive powers comes from studies on investor returns versus benchmark performance. These analyses account for actual investor decisions, including when they buy, sell, or switch funds, rather than assuming a buy-and-hold strategy.

According to DALBAR’s 2023 Quantitative Analysis of Investor Behavior¹, over the long term the average equity fund investor has historically earned far less than the S&P 500 index. For instance, over the 30 years ending in 2022, the average equity mutual fund investor achieved an annualized return of just 6.81%, compared to 9.65% for the S&P 500—a gap of nearly 3 percentage points annually². Compounded over decades, this difference can halve an investor’s wealth. Similarly, over the 20 years through 2022, investors earned 9.00% annually versus the S&P’s 9.80%.

More recent data from DALBAR underscores the persistence of this issue. As per the 2025 Quantitative Analysis of Investor Behavior, amid a strong bull market where the S&P 500 returned 25.02%, the average equity fund investor captured only 16.54%, a shortfall of 8.48 percentage points and the second-largest gap in a decade³. Over the past decade (through

¹ DALBAR, *Quantitative Analysis of Investor Behavior (QAIB) 2025 Edition*. Available at: <https://www.qaib.com/> or <https://www.dalbar.com/>

² DALBAR QAIB historical data (e.g., 30-year and 20-year periods ending 2022; consistent across editions including 2023/2025 reports)

³ DALBAR, *QAIB 2025 Press Release: Investors Missed the Best of 2024’s Market Gains* (released March/April 2025), confirming 2024 S&P 500 +25.02% vs. investor +16.54%, 8.48-point gap.

roughly 2025), the average equity investor earned about 9.8% annually, while the S&P 500 delivered 13% per year. For asset-allocation funds (a mix of stocks and bonds), the gap is even starker: investors earned around 4% per year versus 8% annually for a balanced 60/40 portfolio benchmark.

In volatile years, the damage from poor timing is amplified. During the 2022 market downturn, when the S&P 500 fell 18.11%, the average equity investor lost 21.17%—an extra 3% hit due to behavioral missteps like panic selling. Fixed-income investors fared similarly, losing 13.79% versus the Bloomberg Barclays Aggregate Bond Index's 13.01% drop⁴.

These gaps aren't due to fund fees alone; they're primarily driven by behavioural biases such as chasing performance (buying after rallies) or running for the exits during dips. DALBAR's studies estimate that investor behaviour accounts for the majority of underperformance; fees are a secondary factor.

Fund Flows: Buying High, Selling Low

Mutual fund flow data like that collected by the Investment Company Institute provides a window of insight into collective investor timing. When markets are booming, inflows surge as investors pile in, but during slumps, outflows spike as investors bail out, often at the worst moments.

In 2024, despite robust stock market gains, long-term mutual funds (equity, bond, and hybrid) saw net outflows of \$576 billion, while money market funds (safer, short-term vehicles) attracted \$703 billion in inflows. This shift suggests investors were rotating out of riskier assets even as equities climbed, potentially missing out on gains. Overall, mutual funds had net inflows of \$127 billion (0.5% of prior-year assets)⁵, but the outflows from long-term funds indicate caution or rebalancing at highs.

Recent weekly data provided by ICI from early 2026 shows continued patterns: For the week ending February 25, equity funds experienced outflows of \$19.31 billion (0.1% of assets), with domestic equities hit hardest at \$14.02 billion out. Hybrid funds saw minor outflows of \$186 million, while bond funds drew inflows of \$4.91 billion, possibly reflecting a flight to perceived safety amid any volatility. Combined with ETF issuance, long-term funds (including ETFs) had net

⁴ DALBAR QAIB 2023/2025 editions (2022 performance data)

⁵ Investment Company Institute, 2025 Investment Company Fact Book (released May 2025), covering 2024 mutual fund flows, including long-term outflows of \$576 billion, money market inflows of \$703 billion, and overall net inflows of \$127 billion. Available at: <https://www.icifactbook.org/>

inflows of \$47.75 billion that week⁶, but mutual funds alone showed outflows, highlighting a shift toward passive vehicles.

Historically, this flow behaviour correlates with market cycles. During the 2008 crisis, global long-term fund net sales turned sharply negative (\$547 billion in Europe alone), as investors sold into the downturn. Post-crisis, flows recovered with markets but shifted toward bonds due to risk aversion. From 2009 to 2013, bond and mixed funds absorbed much of the inflows, while equity flows lagged despite stock rebounds. According to Morningstar's US Fund Flows: ETFs and Bond Funds Dominate in January 2026, in January 2026 US equity funds shed \$34 billion while international equities gained \$31 billion⁷ - another sign of reactive allocation.

Why Does This Happen? Behavioural Traps

In a nutshell, psychological factors fuel poor timing:

- Herd Mentality: Investors chase hot trends, buying after prices rise and selling after they fall
- Loss Aversion: People feel losses more acutely than gains, prompting panic sales during dips
- Overconfidence: Many believe they can predict markets, but data shows even professionals struggle

Mutual fund retention rates illustrate this: Equity funds are held for about 4.19 years on average, and fixed-income for 2.94 years – these times are far short of the decades needed for compounding. Asset-allocation funds, which encourage diversification, are held longer (4.78 years)⁸, suggesting stability helps.

The Alternative: Invest for the Appropriate Time Horizons

Contrast this largely awful market-timer performance with a buy-and-hold approach. A simple S&P 500 index fund over 20 years would have returned 9.80% annually through 2022, versus the average investor's 9.00%. Over 30 years, the index beat investors by 2.84% per year. The lesson? Time in the market beats timing the market. A good financial advisor will help you

⁶ Investment Company Institute, Estimated Long-Term Mutual Fund Flows (week ended February 25, 2026; released March 4, 2026). Available at: <https://www.ici.org/research/stats/flows>

⁷ Morningstar, US Fund Flows: ETFs and Bond Funds Dominate in January 2026 (February 2026 report), noting US equity outflows of \$34 billion and international inflows of \$31 billion

⁸ DALBAR QAIB historical retention rates (figures align with pre-2023 averages; e.g., equity ~4.19–4.36 years in various editions; recent updates show slight increases but directionally consistent)

determine what money should be earmarked for the near- mid- and long term, get you invested according to your time horizons and ability to handle risk, select appropriate passive and active investment management strategies and, most importantly, be there to remind you of your goals when emotions start to get in the way of achieving your goals.

In conclusion, while market timing tempts with the allure of quick wins or locking in gains before that downturn you just feel deep in your gut is coming, the data is clear: market timing decisions often lead to real financial losses. By understanding these patterns, investors can opt for disciplined, long-term strategies to close the gap and build lasting wealth. The truly good financial advisor will keep you focused and disciplined on the near- and long-term goals and help you adjust when things in your life, not the macro-economic world, require a change of direction on your part.

Sean May CFP CIM FCSI

Certified Financial Planner, IG Wealth Management Inc. Mutual Fund Division