
The Market Has No Memory

David Booth
Executive Chairman and Founder
Dimensional Fund Advisors

Jan 03, 2020
Article | Client Ready

[Dimensional Founder David Booth discusses the lessons from 2019 that investors can apply to 2020.](#)

I have worked in finance for over 50 years, and it seems that every January the same thing happens. Lots of folks look back at last year's performance to draw conclusions they can use to predict what markets will do in the year to come. I don't make predictions, but I do think it's worth answering this question: What are the lessons from 2019 that we can apply to 2020?

Let's go back to where we were this time last year. The words running across CNBC's home page were, "US stocks post worst year in a decade as the S&P 500 falls more than 6% in 2018." The Wall Street Journal summarized the state of market affairs with this headline: "U.S. Indexes Close with Worst Yearly Losses Since 2008." Amidst gloomy predictions for 2019, I posted a video on the limitations of forecasting.

Things felt ominous. We started the year with a lot of anxious people. Some decided to get out of the market and wait for prices to go down. They thought that after 11 years, the bull market was finally on its way out. They decided to time the market.

We all know what happened. Global equity markets finished the year up more than 25%¹, and fixed income gained more than 8%.²

Missing out on big growth has as much impact on a portfolio as losing that amount. How long does it take to make that kind of loss back? And how is someone who got out supposed to know when to get back in?

The lesson from 2019 is: The market has no memory. Don't time the market in 2020. Don't try to figure out when to get in and when to get out—you'd have to be right twice. Instead, figure out how much of your portfolio you're comfortable investing in equities over the long-term so you can capture the ups and ride out the downs. A trusted professional can help you make this determination, as well as prepare you to stay invested during times of uncertainty.

Not enough “experts” subscribe to this point of view. They’re still trying to predict the future. You’ve probably heard the saying, “The definition of insanity is doing the same thing over and over again and expecting a different result.” I’ve been seeing people make this same mistake for 50 years.

We’ll never know when the best time to get into the market is because we can’t predict the future. And if you think about it, that makes sense. If the market’s doing its job, prices ought to be set at a level where you experience anxiety. It’s unrealistic to think the market would ever offer an obvious time to “get in.” If it did, there would be no risk and no reward.

So what should you do in 2020? Keep in mind 2019’s most important lesson (which is the same lesson from every year before): Stay a long-term investor in a broadly diversified portfolio. Reduce your anxiety by accepting the market’s inevitable ups and downs. Make sure the people advising you align with your perspective. Stop trying to time the markets, and you’ll find you have more time to do the stuff you love to do. that markets are still functioning; willing buyers and sellers continue to meet and agree upon prices at which they desire to transact. It is also important to remember that while indexing has been a great financial innovation for many, it is only one solution in a large universe of different investment options.

¹Source: MSCI World Index

²Source: Bloomberg Barclays Global Aggregate Bond Index

This information is for educational purposes only and should not be considered investment advice or an offer of any security for sale.

Diversification neither assures a profit nor guarantees against loss in a declining market.

dimensional.com



MKT-7746

<https://www.mydimensional.com/the-market-has-no-memory>