Asset Allocation

Market Timing: Sin a Little

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Successful market timing is a tantalizing holy grail for investors, especially when there seems to be persuasive evidence that simple valuation measures have the ability to predict subsequent market performance.

But, as both researchers and investors have discovered, outperforming a passive buy-and-hold approach is harder than it might seem. Is market timing an easy source of added value or a sin to be avoided? In this article we explore the difference between the encouraging in-sample long-horizon evidence and directionally right but weak and disappointing out-of-sample performance. We propose an interpretation that offers a practical enhancement to value timing strategies: adding a dose of momentum.

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