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Time Beats Timing

Due to the recent above-average volatility in the financial markets, I decided for this issue to share a brief but telling story that highlights the fact that time in the market normally trumps timing. The temptation to jump in and out of investments may be driven by financial or emotional motives, but either way, it may be hazardous to your wealth.

The following story is a reprint, used by permission, from the 2006 DALBAR report, Quantitative Analysis of Investor Behavior. Headquartered in Boston, DALBAR develops standards and provides research for the investment, insurance, and banking industries.

The Story of Quincy & Caroline

Quincy and his wife Caroline inherited \$20,000 in 1985. Quincy heard that mutual funds were the best place to put money away, and he and Caroline decided that they would put their windfall into mutual funds. They decided to split the money and each put \$10,000 in their own account. They both selected the same stock mutual fund and deposited their money on the first business day in January, 1986.

In the 20 years since that time, Quincy stayed on top of the market, checking on how his investment was doing every month. Caroline, in the meanwhile, was more concerned about raising their kids and would listen to Quincy talk about how much he was making and, occasionally, how much he had lost.

One year after starting the investment, Quincy stated he was very happy with his decision. The investment was now worth \$12,000, and so was Caroline's. What happened?

At the end of 1987, Quincy had been very worried about all the news of the market crash that had happened that October. When he checked on his investment, it had fallen from \$12,000 a year earlier to \$9,600. He decided to limit any further loss and withdrew half of his investment and put \$4,800 in his checking account. He wanted Caroline to do the same thing with her \$9,600, but she talked it over with her friend and decided against doing anything. Her friend, who was a financial advisor, assured her that the market would bounce back.

By August of the following year, Caroline's account was back up to the \$12,000 level, but Quincy still had \$4,800 in his checking account, which did not increase when the market did. Quincy regained his courage by the end of 1988 and put the money back into his mutual fund.

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By this time, Caroline's account was worth 15,000, and Quincy's had only caught up to \$12,300.

In the following years, Caroline simply let her nest egg grow, but Quincy moved money in and out of the market. He would read the stock market reports and talk with friends to find out what they were doing. When he became worried about losing his money he would withdraw some, and when his confidence was restored he would invest it again.

By the end of 2005, Quincy had built his initial \$10,000 investment up to a whopping \$21,422. Caroline had not touched her investment, so it suffered during times of market declines and recovered when the market did. By the end of 2005, Caroline's account was worth...\$94,555!

The hypothetical case study results are for illustrative purposes only and should not be deemed a representation of past or future results. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments.



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