

Miss the best days in the Market and You Will... Grow Your Wealth Significantly Faster

You've probably seen the trope, "Miss the ten best days in the market and you will reduce your returns by x%." This gets trotted out every time markets are in decline. The point is that you should stay invested at all times, regardless. There is no time that stocks are objectively not a good investment.

The "Ten Best Day" argument sounds compelling. When I was first starting my investment journey in the 1990's, I came across this and was convinced that "buy and hold" was the only sensible strategy. After all, most of the time the market languishes until one of those extremely rare, magical days comes along and pushes prices permanently higher. As I learned more about investing, I realized how wrong this is. Stock returns are based on the actual earnings of the underlying companies and the change in estimates of future earnings (under the rational theory) or the change in sentiment of investors (under behavioral theory.) In the short-term, the changes in investor perception dominates and in the long-term, the underlying earnings dominate. There are periods of calm where stock prices are broadly stable, and periods of chaos where prices swing wildly. This is measured by volatility, or the standard deviation of daily stock returns. In times of extremely high volatility, stocks move up a lot and down a lot, often in the same week, and sometimes in the same day. These periods will have the biggest single day gains, not because markets are rising so quickly, but because the price movement in either direction is extreme. Investors crave stability, so prolonged upward price movement tends to occur when volatility is low, while markets generally move lower when volatility is high. The best days tend to be interspersed with the worst days and during periods of chaotic market declines.

[Wikipedia](#) presents the twenty best days since 1923. Interestingly, eleven of them occurred from 1929-1932. If an investor would have exited the market at the end of 1928 and sat on the sidelines for the next four years, he would have missed eleven of the best twenty days over the next century. According to the logic of the best days argument, he would have devastated his returns. In reality, he would have avoided four straight negative years, with a cumulative 72% loss. If he failed to get back into the market in 1933, he would have missed another three of the best days and a positive 47% return for the year, but would still have 140% more money than the investor who enjoyed all 14 of the best days. Two more of the best days came in 2008, when the S&P 500 lost 38%.

Imagine two hypothetical investors who set up permanent endowments on 12/31/1928, with no taxes and no distributions. They fund the endowment with \$1,000. They are given a glimpse into the future and told when the twenty best days for the S&P 500 will be between then and April 9, 2025. They are told that they must be invested for a full year, but can decide in advance whether they want to step out of the market on any

calendar year. Investor One decides to stay invested all the time, as markets generally go up. After ninety-seven years and a few months, his endowment has grown from \$1,000 to \$224,110. No wonder Albert Einstein called compound interest the “eighth wonder of the world.” Investor Two decides to only invest in years in which the twenty best days occur, seeking to capture almost all the return of the market without enduring all the volatility along the way. His incompetent attorney transposed his instructions and set the endowment up to be invested in every year except those he presciently knew would contain the best twenty days. According to the literature urging all investors to buy and hold, this should have been a devastating error. The result, however, is that his endowment grew to \$603,749, or about 2.7 times as much as Investor One, despite missing ALL the best twenty days.

This year has a long way to go. After the massive April 9 rally (the eighth best day on record), the S&P 500 had a -7% return year to date. This is in line with the other eight years¹ that contain at least one of the best twenty days. The average calendar year return is -6.7%. If the negative return for this year holds, only three of the nine years with at least one of the twenty Best Days would have a positive return. Not great odds.

Obviously, nobody knows when the best or worst days will be. The market does generate positive returns over time. Big losses tend to scare investors away, and large gains tend to draw investors in, but responding to daily moves and acting on emotions are generally not lucrative approaches. Contrary to the “Best Days” argument, there are environments when stocks tend to outperform and environments when they tend to underperform. The future is unpredictable, and the best we can do is to either ride the ups and downs, or to search for systematic approaches to put the odds in our favor. To use a baseball analogy, I don’t know what will happen in any given at bat, but I do know that good things are more likely to happen when Shohei Ohtani is at the plate than when Austin Barnes is.² If we can find ways of objectively assessing what type of environment we are in for stocks, we can position our portfolios accordingly without concern for missing one of the magic “Best Days.”

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¹ 1929,1931,1932,1933,1939,1987,2008,2020,2025

² For non-baseball fans, Ohtani is a three-time Most Valuable Player who is considered one of the greatest hitters of his generation, and Barnes is a light-hitting backup catcher who is known for his defense.