Do you buy and sell stocks by "opt-in"?

Wu Zhijian 2017-03-02 09:19:10  Read { 7896 }  Comments { 0 }

Timely, English is called Market Timing. As the name suggests, the choice of time is to choose to buy stocks and sell the stock of the time, and try to profit from it.

Every investor likes to choose the time, because each of us has our own point of view. We read newspapers, magazines and a lot of financial news on the Internet every day, and see a variety of debates on the economic situation from Bloomberg and Finance Channel. It's a very interesting thing to think of it and to form your own ideas and to buy and sell on your own.

In addition, there are behavioral reasons for our preference for timing transactions. For example, human beings like gambling. A lot of research shows that after taking the risk of victory to get the feeling, giving a considerable pleasure. This is also why if the control is improper, gambling may be addicted to the cause. In this sense, it is similar to the pleasure of predicting the exchange rate of the US dollar against the yen, or the pleasure of the A-share index ups and downs and profit from trading in Las Vegas or Macau.

Therefore, the timing of the temptation for investors is very large. In addition to the pleasure of the gambling mentioned above, if you can correctly judge the stock market's low and high points, then through the low buy, high selling, investment (speculation) who can get a very lucrative return.

Source: Bloomberg

For example, the table made a simple calculation, review the US stock market over the past 20 years of return history (1996-2015). There are about more than 5,000 trading days in 20 years. If you invest in the 20 years and hold the S & P 500 index, then the return on investors is about 4.8% per year. But if you can predict the biggest drop for five days and avoid the five days (assuming that the stock is sold before each day of the five days and the stock market does not recover for the next five days), the average return in 20 years can reach 9.4%.
investment can rise by about 16.7% per year.

Of course, 5 days for more than 5,000 trading days, less than 0.1% of the total sample. To get this excess return, investment (speculators) need to have a very high forecasting ability, foresee the next day is a crash day, and before the crash to sell the stock, while the day after the crash Stock bought back.

One of the dangers of such a time game is that if the investment (speculative) predicts an error and sells the stock it holds in the day that should not be sold, his return on investment will be devastated Fight against.

![Standard and Poor's 500 Index Returns: 1996-2015](chart)

Source: Bloomberg

The same is true of the S&P 500 index over the past 20 years (1996-2015). The 20-year investment and holdings of the S & P 500 have a return on investment of around 4.8% per annum. But if investors do not hold stocks (tak) for the biggest 5 days in the stock market for various reasons, their returns will fall to around 2.7% per annum. If investors miss the stock market up to the largest 10 days, then its return will fall further to about 1.2% per year. And if investors unfortunately missed the biggest 40 trading days (about 0.8% of the total sample), then its return becomes a terrible bear about 5% per year.

That is, if the investment (speculation) made a mistake of 5 days (0.1%) in more than 5,000 days, and the biggest 5-day rise did not hold the stock, he would insist on investment (speculation) 20 years, it is difficult to make up the loss of that 5 days back. If you miss more days (such as 20 or 40 days), then investors may not be able to make up for the loss of life back.

A friend may ask, you said above are the US stock market, but our domestic stock market and the US stock market is not the same ah The above mentioned US stock market rules in the Chinese stock market also applies?

In fact, the above mentioned principles in the A shares are similar, even more obvious, because the A shares of the volatility is greater.
Also in the past 20 years, the Shanghai Composite Index returns as an example (1996-2015). The 20 years of investment and holding the Shanghai Composite Index’s return on investment is about 9.8% per annum (Note: the company does not include dividend returns). But if investors do not hold stocks for the longest day in the stock market for various reasons, their returns will fall to around 7.4% per year. If investors are unfortunate enough to miss the biggest 40 trading days, then the return will become a terrible annual negative about 3.7%.

A share is in the past 20 years to give investors about 9.8% per year return, in fact, is very good. But many investors in such a "bull", cannot make money, one of the big reason is because of the timing of the attempt and Ta Kong, missed the stock market rose the largest number of trading days, so that serious drag on their own Return on investment.

Many readers of friends may ask: if I asked my timing strategy is valid, I need to ensure that the minimum forecast accuracy rate is how much?


The famous American financial economist and Nobel laureate, William Sharp has studied this issue. In an academic paper, Sharp suggested that in order to take advantage of the game in the choice of time, predictors need to achieve the accuracy rate of 74%. If you can not achieve the accuracy rate of 74%, then investors might as well make a fool, buy passive index funds and long-term holding.

So is there anyone who can achieve 74% predictive accuracy? Sharp statistics at the time the United States was the more well-known stock forecasting experts record, found that no one can achieve 74% accuracy rate. In the above figure we can see, record the best forecast expert Ken Fisher, the accuracy rate of about 66%. This is already a very surprising accuracy, but still did not reach 74% can help investors to make money the accuracy rate. Other of the more bad predictions of "brick home" is no mention.

In the United States, the stock market in addition to the above "brick home", there are many investment briefings and investment magazines. Most of these publications are written by "experts" or "expert groups", and a large part of which is important to predict the stock market. So how accurate is the accuracy of these journals?

John Graham, a US scholar, collected hundreds of investment journals and made a statistical analysis of their forecasts for the stock market, and the results were not optimistic.


For example, the horizontal axis of the graph above shows that the number of investors (from 0% to 70%) in the investment magazine is recommended to increase the number of stocks purchased, while the vertical axis shows the next month after making the recommendation, the
newsletter made an increase in the purchase of 20%—40% of the stock proposal, and the next month the stock market fell 10%, even in individual months fell 20%.


In these brief quarterly forecasting, it is recommended that investors sell their shares in the hands of the correct rate is also very poor. For example, the chart shows that about half of the time in the US stock market is rising in the month after the announcement of the sale of the stock. That is to say that the so-called "brick home proposal" value and cast a coin and then according to the positive and negative to buy and sell stocks almost.

Now, let's take the research done in the academic community and analyze how much the ability of investors to take the time to move.

Source: Woodsford Meta Analysis

We spent a lot of time finishing our academic research results published in the top journals of our country in our study of the five-pronged capital. We divided the results into two categories:

1) Investors have the ability to choose: even after deducting transaction costs and other
2) Timely efforts to keep investors to create a negative or zero value: the weight of the left side of the figure said.

The results are shown in the figure above. Most of the research found that the timing of the return of investors even worse, that our majority of investors can not choose to win their own better return on investment. For example, a study [1] (Barber and Odean, 2001) shows that "the choice of time to allow investors to lose 2.65% per year net return." Another study [2] found that "In 1991-44, the stock fund investment decision to make investors lose 1.56% per year" (Firesen, 2007).

The conclusions of these academic studies are consistent with the empirical results we observe.

<table>
<thead>
<tr>
<th>截至 2014 年年底</th>
<th>美国股票基金投资者回报</th>
<th>标准普尔 500 指数回报</th>
</tr>
</thead>
<tbody>
<tr>
<td>过去 1 年</td>
<td>25.5%</td>
<td>32.4%</td>
</tr>
<tr>
<td>过去 3 年</td>
<td>10.87%</td>
<td>15.13%</td>
</tr>
<tr>
<td>过去 5 年</td>
<td>15.21%</td>
<td>17.94%</td>
</tr>
<tr>
<td>过去 10 年</td>
<td>5.83%</td>
<td>7.4%</td>
</tr>
<tr>
<td>过去 20 年</td>
<td>5.2%</td>
<td>9.22%</td>
</tr>
</tbody>
</table>

Source: Dalbar’s Quantitative Analysis of Investor Behavior, 2014

As shown in the above chart, during the 20 years from 1995 to 2014, regardless of the return on investment for the past year, three years, five years, ten years or twenty years, we hope that investors who return in return The real return is always lower than the fool-type buy and hold the index of the return of investors. Over the past 20 years, active equity funds in the United States the average annual rate of return is about 5% per year, while the S & P 500 index funds in the same period of return of about 9.22% per year.

At the end of this article, let me cite a few wise people to invest (speculation) who are keen to comment on it.

Benjamin Graham, the teacher of Buffett, said that after studying the history of Wall Street over the past 60 years, the conclusion was that no one could predict the trend of the stock market.

William Bernstein, a famous American scholar, wrote in his book, The Intelligent Asset Allocator, that there are two investors in the world: the first is to know where the stock market is going, and the second is to know that they do not know the direction of the stock market. But in fact there is a third person: they rely on pretend to predict the direction of the stock market to cheat cheat drink.

Yale University Foundation Chairman Charles Ellis in his book “Winning the loser’s game” mentioned: timing is a very bad idea: never to try.

I hope to be helpful.

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March 6, 9-9, Wu Zhijian will be in Shanghai University of Finance and Economics /
with Wu Zhijian fzmzhm, please WeChat public (Wu Zhijian evidence) message, our staff will contact you to do the appropriate arrangements.

[1] Barber and Odean, Boys will be boys: gender, overconfidence and common stock investment, The quarterly journal of economics, February, 2001


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