Investors vs. traders

World equity markets have seen some sizeable moves in recent weeks: an interest rate hike in Japan triggered a 17% drop in the Nikkei 225 Index over just three trading days in early August, while news of fiscal support from the Politburo in China saw stocks in Hong Kong rise 28% over the last two weeks of September. Investors observing these shifts may feel tempted to quickly enter and exit the market to avoid major losses and capitalize on sharp rallies. However, despite the seemingly clear price movements, consistently predicting these swings is virtually impossible – even with prior knowledge of the news.

This challenge was highlighted in a recent Wall Street Journal review of an experiment showing people 15 randomly selected newspaper front pages from the past 15 years. Participants could read the entire front page except for any specific comments on the market action of the prior day. With this knowledge in hand, participants were free to bet, using a fictitious $1 million sum, on the direction of stock and bond prices for the prior day. In other words, they were free to place bets on the market using front-page headlines a day in advance of their actual publication. More than 8,000 people participated, armed with this knowledge of the future. So how did participants fare in predicting market movements? The median wealth across all participants fell from the initial $1 million balance to just under $688,000 by the end of the 15 rounds.

How could this happen? The reasons relate to human emotion, the contrast of actual news to prior expectations, and the expected impact of this news on future events. As it turns out, the confluence of these factors, which incorporates views from a huge swath of investors, makes it exceedingly difficult to predict daily stock prices, even when you know the news in advance.

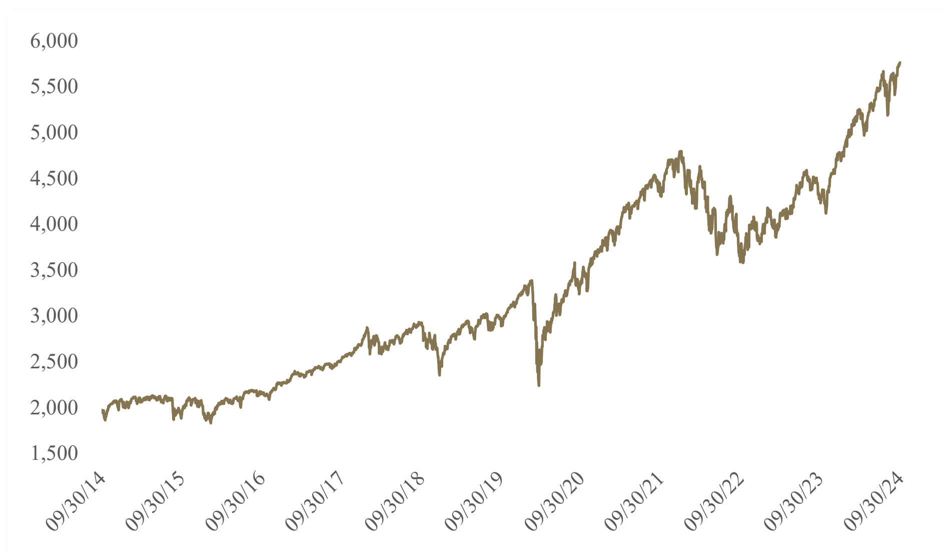
This view is supported by another simple observation, graphically depicted on the following page. For the ten years ending September 30, 2024, the Standard & Poor's (S&P) 500 Index (in US dollar terms) rose 11.3% in price annually, for a cumulative price gain of 192.2%, making for an excellent decade of market performance. Adding in dividends makes these figures even better, with the annual total return clocking in at 13.4%, and the cumulative total return for investors a robust 251.0%. However, for an individual focused purely on the daily moves, the picture changes considerably: of the 2,517 trading days over this ten-year stretch, only 1,353, or 53.8%, saw the market rise in price. The other 46.2% saw the market fall, suggesting that trying to predict daily market movements offers little better than a coin-toss for odds of success.

2024 PERSPECTIVES

NOVEMBER

GUARDIAN CAPITAL™ | PRIVATE WEALTH

S&P 500 Index
(percent, US dollar basis)



11.3%
Annual price return

13.4%
Annual total return

53.8%
Percentage of days up

46.2%
Percentage of days down

Source: FactSet | S&P 500 index, USD price, 30 Sep 2014 to 30 Sep 2024

You wouldn't know it by glancing at the chart above, but investors looking to duck in and out of a marvellous bull decade for stocks, faced almost equal odds of success and failure when trying to predict daily price swings. Even with perfect knowledge of the news to come, emotions and expectations make it virtually impossible to predict daily price action. When it comes to building wealth, investors are best served by focusing on time in the markets rather than trying to time the markets.

Follow us on LinkedIn and stay in the know.

GUARDIAN CAPITAL™ | PRIVATE WEALTH

This commentary is for general informational purposes only and does not constitute investment, financial, legal, accounting, tax advice or a recommendation to buy, sell or hold a security. It shall under no circumstances be considered an offer or solicitation to deal in any product or security mentioned herein. It is only intended for the audience to whom it has been distributed and may not be reproduced or redistributed without the consent of Guardian Capital Advisors LP. This information is not intended for distribution into any jurisdiction where such distribution is restricted by law or regulation.

The opinions expressed are as of the published date and are subject to change without notice. Assumptions, opinions and estimates are provided for illustrative purposes only and are subject to significant limitations. Reliance upon this information is at the sole discretion of the reader. This document includes information and commentary concerning financial markets that were developed at a particular point in time. This information and commentary are subject to change at any time, without notice, and without update. This commentary may also include forward-looking statements concerning anticipated results, circumstances, and expectations regarding future events. Forward-looking statements require assumptions to be made and are, therefore, subject to inherent risks and uncertainties. There is a significant risk that predictions and other forward-looking statements will not prove to be accurate. Investing involves risk. Equity markets are volatile and will increase and decrease in response to economic, political, regulatory and other developments. Investments in foreign securities involve certain risks that differ from the risks of investing in domestic securities. Adverse political, economic, social or other conditions in a foreign country may make the stocks of that country difficult or impossible to sell. It is more difficult to obtain reliable information about some foreign securities. The costs of investing in some foreign markets may be higher than investing in domestic markets. Investments in foreign securities also are subject to currency fluctuations. The risks and potential rewards are usually greater for small companies and companies located in emerging markets. Bond markets and fixed-income securities are sensitive to interest rate movements. Inflation, credit and default risks are also associated with fixed-income securities. Diversification may not protect against market risk, and loss of principal may result. This commentary is provided for educational purposes only. It is not offered as investment advice and does not account for individual investment objectives, risk tolerance, financial situation or the timing of any transaction in any specific security or asset class. Certain information contained in this document has been obtained from external parties, which we believe to be reliable, however, we cannot guarantee its accuracy. These sources include Bloomberg, Bank of Canada and National Bank Independent Network for the relevant periods cited in this commentary. Guardian Capital Advisors LP provides private client investment services and is an indirect wholly owned subsidiary of Guardian Capital Group Limited, a publicly traded firm listed on the Toronto Stock Exchange. All trademarks, registered and unregistered, are owned by Guardian Capital Group Limited and are used under license.

Published: November 1, 2024