"You have to keep reminding yourself. We don't know what's going to happen with anything, ever."

Peter Bernstein

During the first quarter of 2018, the stock market reminded us once again that it can and does go down from time to time. Unfortunately, in practice the ability to accurately predict when corrections may occur (and act on them), better known as "market timing," is extremely difficult and potentially very costly for both professional and retail investors.

Some of the most successful investors have shared their views on market timing:

> *"I have never known anyone who could consistently time the market. And in fact I've never known anyone who knows anyone, who was able to consistently time the market."* Jack Bogle
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> *"The only value of stock forecasters is to make fortune-tellers look good."* Warren Buffett
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> *"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."* Peter Lynch

As these investors suggest, timing the markets successfully and consistently is virtually impossible. Furthermore, empirical evidence illustrates that market timing has negative implications for long-term investment performance. Many academic studies have analyzed this topic by comparing the time-weighted and dollar-weighted returns of investment funds. Time-weighted returns measure a funds' actual performance, whereas the dollar-weighted returns measure the performance received by the investors. On average, investors underperformed the time-weighted returns of their investment funds by roughly 1.5%. That underperformance, or "behavioral gap" as it is often referred to, reflects investors failed attempts to time the market by investing or redeeming capital at the wrong times. This is confirmed by studies that show the largest equity inflows have occurred at the tops of markets and the largest outflows at the bottoms – the epitome of poor market timing.

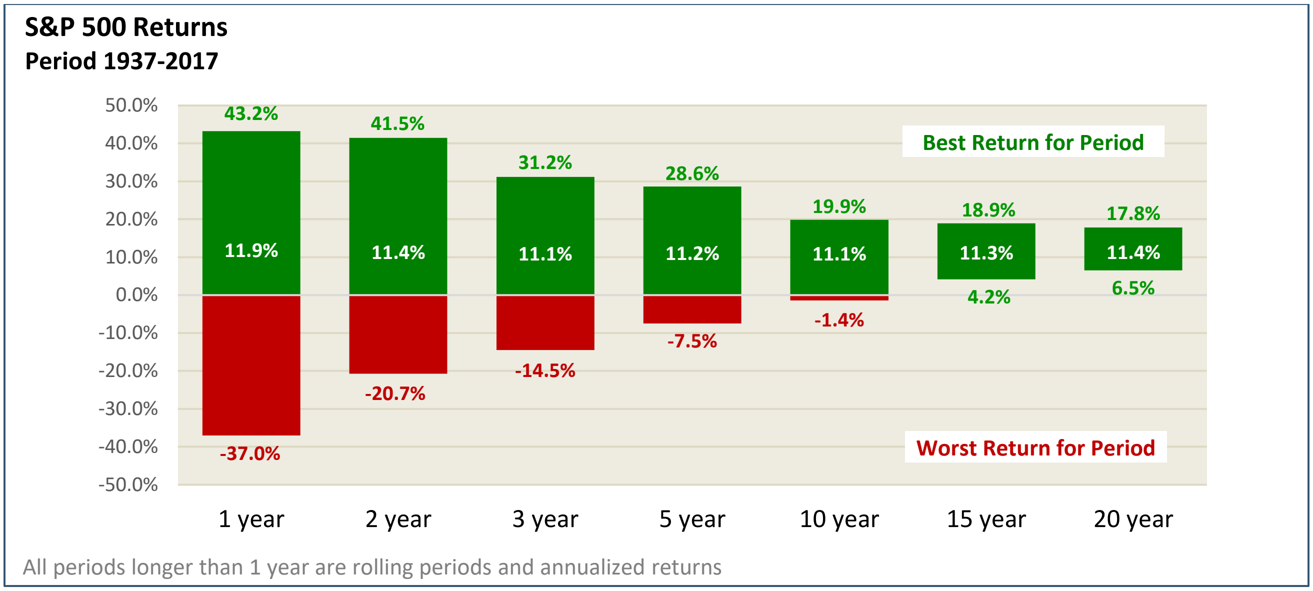
Are professional investors better at market timing? The evidence is inconclusive. However, in our opinion, the question is not whether professionals are *better* at market timing, but rather that they *know better* not to time the markets.

A look at long-term investment performance supports this position. The table below provides performance of the S&P 500 from 1937 through 2017, measured over various rolling periods ranging from 1 to 20 years in length.

Time Period	Number of Periods	# Positive	# Negative	% Positive	% Negative	Worst %	Best %	Average %
1 year	81	62	19	76.5%	23.5%	-37.0%	43.2%	11.9%
2 year rolling	80	68	12	85.0%	15.0%	-20.7%	41.5%	11.4%
3 year rolling	79	69	10	87.3%	12.7%	-14.5%	31.2%	11.1%
5 year rolling	77	69	7	89.6%	10.4%	-7.5%	28.6%	11.2%
10 year rolling	72	70	2	97.2%	2.8%	-1.4%	19.9%	11.1%
15 year rolling	67	67	0	100%	0%	4.2%	18.9%	11.3%
20 year rolling	62	62	0	100%	0%	6.5%	17.8%	11.4%

Measurement period January 1937 through December 2017
All returns over 1 year are annualized returns

Using the highlighted line above as an example, we see annualized data for the 77 rolling 5-year periods that have occurred since 1937. Of those, 69 had positive returns and 7 had negative returns. The worst 5-year return was -7.5%, while the best was 28.6%. The average annualized 5-year return was 11.2%. So, over the past 80 years, when investing in the equity market with a 5-year horizon, 9 out of 10 times the return has been positive. To summarize, historical returns suggest that investors with sufficiently long investment horizons are unlikely to realize negative returns.



While most participants acknowledge the benefit of a consistent buy and hold strategy, temptation, greed and fear are overwhelming motivators. Just consider that the losses from 2008 were so psychologically and financially damaging, that while markets took just over four and one-half years to recover, it took seven years to coax retail investors back into the water.

How does all this empirical evidence impact how we manage accounts at Aureus? Cash balances in accounts we manage are typically a reflection of: 1) near-term client cash requirements, 2) an overall asset allocation strategy, and 3) portfolio buy and sell decisions on individual stocks that takes into account valuation measures. In other words, they are not related to an equity market timing call. Rather, they reflect the fundamental decisions we make on selling existing stocks and buying new stocks for the portfolio. Several factors go in to these individual stock decisions that may cause cash levels to rise, or fall, in the overall portfolio.

Given the return of volatility to the equity markets, it is important to avoid emotional reactions to short-term gyrations and inevitable market corrections. History is on our side if we remain focused on the long-term benefits of owning stocks.