Canadian Investors: Time in the Market vs. Timing the Market

Description

If you've invested in stocks for some time, you would have heard of time in the market versus timing the market.

Time in the market suggests that staying invested for a long time in great businesses will generate satisfactory returns. So, you might stick with the program of saving and investing consistently every month.

When you time the market, you're aiming to buy stocks when they're attractively valued, which is oftentimes during market corrections. Some investors go as far as taking profit when they believe their stock holdings are expensive, aiming to buy them back when they're attractively valued again. If you do that, you risk missing the boat if the stocks you love run away from you after you sell them.

Time in the market and timing the market aren't necessarily exclusive to each other. I'll illustrate this idea with some **TSX** stock examples below.

Fortis stock

Fortis (TSX:FTS)(NYSE:FTS) stock is a prime example of a predictable dividend-growth stock. It has increased its dividend for 47 consecutive years.

Let's say you didn't time the market. You simply had excess cash to invest and bought the stock 20 years ago. You would have generated annualized returns of about 11.2% on the investment.

It just so happened that the dividend stock started the period trading at a price-to-earnings ratio (P/E) of about 13.2 and ended with a P/E of approximately 20.9. It also compounded earnings per share by roughly 6.1% per year in the period. Your yield on cost would have grown from about 5% to more than 20%. In other words, from dividends alone (ignoring price appreciation), you would generate *+20% returns* on your original investment *every year*.

If you want to "time the market" on Fortis stock, you could look at its recent yield history as a guide, because it's a proven dividend-growth stock that's expected to continue growing its dividend. Fortis stock's yield history indicates that whenever it yields +4%, it could be a good value.

FTS dividend yield data by YCharts.

Its current quarterly payout of $0.505 per share on a recent quotation of $54.91 implies an initial yield of almost 3.7%. So, investors aiming to buy at a yield of at least 4% require Fortis stock to pull back to $50.50 per share or lower. The company continues to guide for a dividend-growth rate that averages 6% through 2025.

A roughly 6% dividend hike in September would suggest a buy target of about $53.50, which is very close to today's trading levels. So, investors who would love to buy (more) Fortis shares could consider adding to the stock starting in the $50.50-$53.50 range.

TSX growth stocks

If you're investing in [TSX growth stocks] that provide much of the returns from price appreciation (instead of a big chunk from dividends), then it could be safer to time the market. That is, aim to buy during market corrections.

For example, during the pandemic market crash, **Lightspeed** stock fell more than two-thirds to less than $15 per share from peak to trough, despite the growth stock generating very strong revenue growth.

If you even bought it at about $25 per share after the stock somewhat stabilized (after basing at about $15), you'd still be sitting on 3.5 times your money! That would turn a $10,000 investment into $35,000.

The Foolish takeaway

Time in the market *and* timing the market can both work in your favour. You can focus on investing in great businesses for a long time but aim to time your purchases to help boost income/returns.

In the Fortis stock example, we saw how time in the market can grow your yield on cost to a super-reassuring level. But timing purchases for a +4% yield can boost your income and near-term returns. Those who bought on the dip to about $49 per share in February or March would have locked in a 4.1% initial yield and are sitting on price appreciation of nearly 12% already!

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