PPM
PRIVATE PORTFOLIO MANAGERS

January 2025

AIOFP
ASSOCIATION OF
INDEPENDENTLY OWNED
FINANCIAL PROFESSIONALS

THE PRICE OF PANIC: WHY MARKET TIMING COSTS MORE THAN YOU THINK

Hugh MacNally, PPM Executive Chairman and Portfolio Manager

Market timing versus long-term investing – it's a choice that really shows up during times like these. When markets are smoothly trending up, it's pretty easy to say you're a long-term investor who believes in the future earnings of your companies. But when questions start swirling about market direction, there's always that temptation to sell and "buy back in later."

Market timing versus long-term investing – it's a choice that really shows up during times like these. When markets are smoothly trending up, it's pretty easy to say you're a long-term investor who believes in the future earnings of your companies. But when questions start swirling about market direction, there's always that temptation to sell and "buy back in later."

Let's look at why that's usually not the best idea. Studies of market timing show some sobering numbers – if you're off by just a month on market tops and bottoms, you could end up with half the returns you'd get from simply staying invested. Even the most skilled investors would struggle to get that timing right consistently over 20 years.

What really matters is keeping your eye on what you own – companies with solid growth prospects and reasonable valuations. Sure, they won't go up in a straight line. They'll have their down days, sometimes when you least expect it. But if you're holding quality businesses, these market swings often turn out to be just background noise in the long run.

We're at one of those moments now where this discipline is being tested. This doesn't mean blindly holding onto stocks that have become seriously overvalued. But there's a reason the most successful investors tend to focus on individual companies' prospects rather than trying to predict market crashes.

Looking at what markets did in 2024, we saw some pretty impressive numbers. The global stock market index (MSCI) jumped 24.3%, though performance varied quite a bit by region. Taiwan was the star performer, up 31.7%, while markets in the UK (+9.6%) and Europe (+11.9%) posted more modest gains. US tech stocks continued their strong run, pushing the NASDAQ up 29.6%, and even China's market showed some recovery, with the CSI 300 up 18.2%.

But here's some helpful context – when you look at returns over the past three years, things look quite different. Outside of Japan and Taiwan, even the stronger markets like Australia and the US S&P 500 only returned about 8.9% annually. European markets lagged, and Chinese markets lost ground during this period, mainly due to their property market and economic challenges.

Market performance table (as of 31/12/2024)

Market (in US$)	1 year %	3 Year % pa
NIKKEI 225	21.3	13.8
TAIWAN TAIEX INDEX	31.7	12.0
S&P/ASX 200 INDEX	12.7	8.9
S&P 500 INDEX	25.0	8.9
NASDAQ COMPOSITE	29.6	8.2
Euro Stoxx 50 Pr	11.9	8.0
DOW JONES INDUS. AVG	15.0	7.6
FTSE 100 INDEX	9.6	7.3
KOSPI INDEX	-8.4	-5.4
CSI 300 INDEX	18.2	-4.9

There's been a lot of talk about whether markets, especially tech stocks, have gotten too expensive. But this isn't quite like previous bubbles. While some caution is warranted regarding AI-focused stocks like Nvidia, many large technology companies demonstrate fundamental strength that wasn't present in previous bubbles, such as the 2000 dot-com era. These companies now generate healthy cash flow yields comparable to bond yields, with strong growth trajectories.

On the interest rate front, we're seeing short-term rates fall in most developed economies as inflation pressures ease up. But central bankers are being careful not to declare victory too soon – they remember all too well what happened in the 1970s when they celebrated too early.

What's interesting is that while short-term rates are dropping, longer-term bond yields have actually risen over the past year. In Australia, the 10-year bond yield is up 0.40% this year. Current yields around 4-5% suggest investors are looking at a future where central banks hit their 2-3% inflation targets, giving a modest but positive real return.

Looking ahead, while some parts of the market (especially AI-related stocks) might look pricey, we're still finding good opportunities in companies with strong fundamentals and competitive advantages. Right now, it's more about picking the right stocks than making broad market calls – which fits right in with our approach of focusing on individual companies rather than trying to time the market.

For further information contact either Warren Jones, Business Development Manager or Jill May, Head of Client Relations.

Warren Jones
Business Development Manager
E: wj@ppmfunds.com
M: 0422 819 116
P: (02) 8256 3777

Jill May
Head of Client Relationships
E: jm@ppmfunds.com
M: 0412 033 359
P: (02) 8256 3777

Hugh MacNally
Executive Chairman, Portfolio Manager
E: hm@ppmfunds.com
P: (02) 8256 3777