TIME IN THE MARKET BEATS TIMING THE MARKET

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01/18/2024

With the end of each year comes long-awaited traditions such as the Thanksgiving turkey, Saint Nicholas, Christmas trees, Hanukkah's menorah or the New Year's fireworks. For investors, one of these traditions are equity forecasts for the following year. Recently, as I was reading predictions for 2024, I started to wonder how accurate last year's predictions were.

Predicting Short-Term Moves in the Market Is a Fool's Errand

In figure 1, I compiled predictions from 16 forecasts published at the end of 2022 by different banks and asset managers across the spectrum. As a reminder, the S&P 500 gained 24.2% over the full year in 2023. The results are telling:

- The dispersion is massive, with a 21% spread between the most pessimistic and the most optimistic, with everything in-between.
- Even so, not one expert got it even close to right. Some predictions ended up 28% off.

Figure 1: What Experts Predicted for the S&P 500 in 2023

	S&P 500 2023 Forecast	
Barclays	3675	-4.3%
Societe Generale	3800	-1.0%
Morgan Stanley	3900	1.6%
UBS	3900	1.6%
Citigroup	3900	1.6%
Blackrock	3930	2.4%
Bank of America	4000	4.2%
Golman Sachs	4000	4.2%
HSBC	4000	4.2%
Credit Suisse	4050	5.5%
Royal Bank of Canada	4100	6.8%
JP Morgan	4200	9.4%
Jefferies	4200	9.4%
BMO	4300	12.0%
Wells Fargo	4400	14.6%
Deutsche Bank	4500	17.2%

Source: WisdomTree.

So, what should we conclude from this? I think we should acknowledge that when it comes to short-term moves in markets, "Nobody knows anything" and successful investors are long-term investors who aim to harness the equity risk premium over the long term through time-proven, consistent strategies. In the words of Kenneth Fisher, "Time in the market beats timing the market."

Investing for the Long-Term: Core Strategies Anchored in Academically Proven Risk Premiums

Academics have demonstrated time and again that systematically investing in factor portfolios would have outperformed the market over the long term. Investing in high-dividend stocks, high-quality stocks or cheap stocks in a systematic manner gives investors one of the keys to potentially outperforming the market. It is worth noting that academic research has shown that the expected outperformance yielded by such approaches has not meaningfully decreased over time, despite markets becoming more efficient.

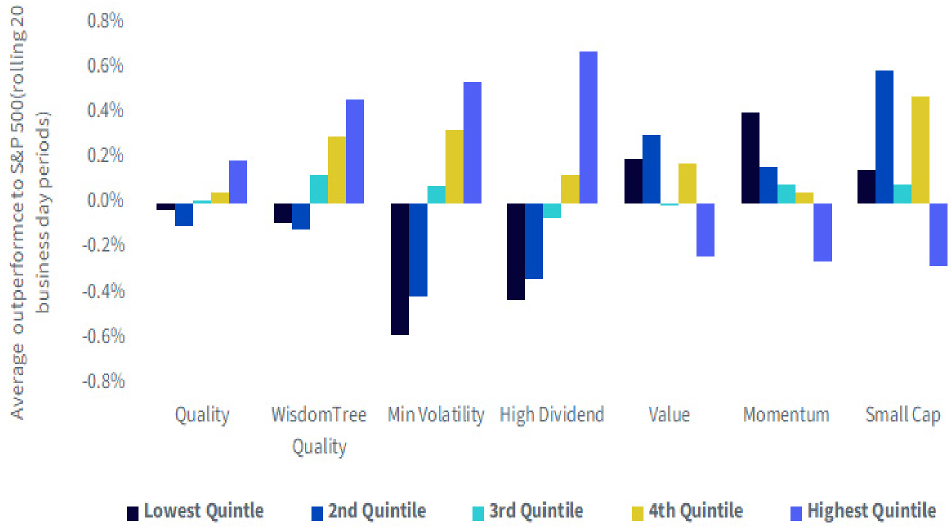
WisdomTree Quality Dividend Growth strategies are a good example of how using this decades-long research can help outperform the market and grow investors' wealth over the long term. One of the reasons for these strategies' success is that the investment process is rooted in academic literature and focuses on a systematic selection of a diversified basket of highly profitable companies with solid dividend-paying credentials, leaning heavily into the quality and high dividend factors.

WisdomTree Quality Dividend Growth

Our portfolios are constructed around dividend-paying companies with the best-combined rank of earnings growth, return on equity and return on assets within a universe of companies with sustainable dividend policies. Stocks are also risk-tested using a proprietary risk screen (Composite Risk Score), which uses quality and momentum metrics to rank companies and screen out the riskiest companies and potential value traps. Each company is then weighted based on its cash dividend paid (market capitalization x dividend yield), which introduces valuation discipline in this high-quality portfolio.

Figure 2 illustrates the historical average relative performance of different global equity factors depending on volatility regimes. We observe that some factors, like min volatility, are fundamentally defensive. They historically outperform a lot when volatility is high (and usually markets are down) but they struggle and underperform significantly in bull markets when volatility is low. On the contrary, some factors, like small caps, are very cyclical. They do well in periods of low volatility but exhibit deeper drawdowns in high-volatility markets, which take a long time to recover from.

Figure 2: Average Relative Performance of Different Global Equity Factors Depending on Volatility Regimes



Sources: Bloomberg, WisdomTree, data as of 12/29/00–12/31/23. Using day data in U.S. dollars (USD) and gross total return indexes. Calculations are in USD. The inception date for the WisdomTree U.S. Quality Dividend Growth Index (WisdomTree Quality) is 10/14/13. Above numbers include backtested data. Past performance is not indicative of future results. You cannot directly invest in an index. Factors here are MSCI USA based factors except for WisdomTree Quality.

WisdomTree's approach to quality, though, seeks to offer a very balanced mix with strong outperformance in high-volatility markets, helping to reduce drawdowns and time to recovery but also some outperformance in other volatility regimes. This combination is what we call "all-weather." Such a strategy can be used as a strategic holding to put time in the market as it captures most of the upside while offering risk mitigation on the downside.

Key Takeaways

Looking forward to 2024, S&P 500 predictions remain incredibly diverse from 4,200 (-12%) by JP Morgan to 5,100 (+7%) from Deutsche Bank. Uncertainty in the markets also remains at a very high level. U.S. monetary policy remains extremely volatile and around half the world population will vote in 2024, including the U.S. in November. Overall, and as always, we believe like core, resilient equity investments that do not rely on knowing the future should be investors' best friends. Investing in quality and high dividend could continue to be the best answer for long-term minded investors.

Pierre Debru is an employee of WisdomTree Ireland Limited, a European subsidiary of WisdomTree Asset Management Inc.'s parent company, WisdomTree, Inc.

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DEFINITIONS

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Risk premium : Equity investments are not risk free, but it is thought that investors buy stocks because the returns they expect are high enough to allow them to take the risk.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Composite risk score : A term that refers to combining multiple factors—for example quality and momentum—to quantify the potential riskiness of a security relative to comparable companies.

Momentum : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.

Minimum Volatility : Funds that use an optimization that will consider the correlation of companies to each other in order to get a lower volatility index overall.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Small caps : new or relatively young companies that typically have a market capitalization between $200 million to $2 billion.

Drawdowns : Periods of sustained negative trends of return.