A sure way to make nothing

Now might not be the time to panic, but why not ride out this period of volatility with a little cash on the sidelines? Here's some food for thought.

In his Little Book of Value Investing, Christopher Browne points to a US study by Sanford Bernstein & Company which 'showed that from 1926 to 1993, the returns in the best 60 months, or 7% of the time, averaged 11%. The rest of the months, or 93% of the time, returns only measured around 1/100 of 1%'.

Month	All Ords return
Dec 1971	18.2%
Jan 1975	17.4%
Oct 1974	17.2%
Jan 1980	17.2%
Apr 1983	15.4%
Jul 1987	15.1%
Apr 1968	14.1%
Mar 1988	13.2%
May 1980	12.4%
Jan 1974	12.1%

I ran some numbers on the Australian market and the contrast is similarly striking. From February 1960 to February 2008, the monthly return from the All Ordinaries Index averaged 0.70%. But in the best 40 months, or just 7% of the total, the monthly return averaged 10.4%. In the remainder, it averaged zero.

Short sharp bursts

Most of the stockmarket's returns come in short, sharp bursts and if you miss them you'll do tremendous damage to your long-term returns. Miss the best 7% of months and you'll end up with zero.

In Browne's words, 'the reality is (and it's been proven) that the biggest portions of investment returns come from short periods of time but trying to identify those periods and coordinate stock purchases with them is almost impossible'.

Many value investors, such as Walter Schloss, Peter Lynch and the aforementioned Christopher Browne, have generated incredible returns while remaining fully invested 100% of the time. Others, like Charlie Munger and Warren Buffett, have been equally successful keeping some cash on the sidelines and pouncing in times of distress. But the one way to ensure mediocre results is to be fully invested at the top and sitting on a pile of cash at the bottom.