IDENTIFYING THE BEST TIMES TO INVEST

How to spot market peaks and troughs.

If there was a universal, rock-solid reliable answer to the question "when is the best time to invest?" life would be a lot easier for financial advisers.

Unfortunately, all savvy observers can hope to do is find certain patterns in the market, and predictable behaviour among their peers, which might give them the competitive edge.

It's a fascinating topic, though, revealing the role of human behaviour in the functioning of what you might assume is a coldly logical system based on the rule of supply and demand.

And let's be clear upfront: there is no such thing as a sure-fire investment. However carefully chosen and managed, the value of investments can go down as well as up.

You should always invest carefully with regard to your own financial circumstances and, ideally, with tailored advice.

MICRORHYTHMS

Most investors take the plunge with a long-term view and don't worry too much about the rhythms of the trading day or week.

If you're actively handling your investments, however, or have a fund manager doing so on your behalf, then you'll no doubt be aware of the following received wisdom.

Firstly, the greatest volatility is straight after markets open and shortly before they close. This is when the most serious and experienced day traders make big gains (or big losses).

Secondly, correspondingly, the central part of the day is steadier, offering more predictable returns.

Finally, there's a widespread belief that Monday is when markets are weakest and thus the best time to buy.

Fridays, on the other hand, have traditionally been strong and are therefore the best days to sell.

Of course these are broad assumptions, not rules.

"SELL IN MAY AND GO AWAY"

For much of the past 70 years it was taken as given that stock market growth would be lower in summer months than during the rest of the year.

The assumption was that as exchanges in London and other great trading cities around the world cleared out for the long holiday, there were simply fewer people around to buy or sell.

This led to the development of a strategy known as 'Sell in May and go away', where the idea was that sensible investors would sell stock in spring, perhaps transferring their investment to a low-risk product, or holding it as cash, and wouldn't start buying shares again until the leaves started to turn.

Although research has shown that historically markets have indeed tended to be stronger from November to April, some argue this was only a coincidence or self-fulfilling prophecy.

There's also an argument that, even if it did once hold sway, since around 2013 this phenomenon has begun to diminish along with the very idea of the lazy, leisurely summer.

Similar philosophies, strategies or superstitions include:

- 'the January effect', which supposedly sees a surge in share prices as trading resumes after the Christmas break
- the September effect (stocks up)
- the October effect (stocks down)
- the so-called 'Santa rally' in the run-up to Christmas.

LONG-TERM TRENDS

Another approach is to take a longer-term view, not focusing on movement within a single year but over the course of many, or even across decades.

We've all heard of the boom-and-bust cycle, describing the apparent inevitability of a period of economic growth being followed by recession and vice versa.

Economic theorists have attempted to discern the frequency of the cycle and to work out ways to dampen its effect, but nonetheless few pundits predicted the most recent global recession that kicked off in 2008.

For investors, the fascination in trying to predict boom-and-bust is obvious: most would want to cash in their investments at the peak price just before the market collapses; and buy shares at the lowest possible price just as the market begins to rebound.

In practice, this approach can shred the nerves, and lead to all kinds of panicked, emotion-led decision making.

BUY-AND-HOLD

Perhaps a more important question than when the right time to invest might be is about the right timescale for investments.

One school of thought says that the longer you hold on to any investment, the more likely you are to one day see a return. This is known as the 'buy-and-hold' or 'position trading'.

In this model, rather than attempting to ride the bucking bronco of the markets by buying low and selling high, investors work on the assumption that in the very long-term – over the course of decades – the market tends to give a good rate of return overall.

The hardest part of this strategy is resisting the urge to cash-in when share prices crash during periods of volatility.

ANIMAL INSTINCT

One problem is that people are not robots – we are all afflicted with emotion, from fear to excitement, which means we don't always make sensible decisions.

Emotion and human nature underlie many of the phenomena described above. Some studies suggest, for example, that the poor performance of markets on Monday is a result of sluggish traders, while there's some evidence seasonal fluctuations could be linked to levels of daylight. When it's dark and miserable, the theory goes, people are less willing to take risks.

Back in 2008, as panic over the financial crisis set in, many people sold shares with the intention of salvaging at least something of their investment. But, as it happened, stocks regained their value within a year or two.

This led to a double blow for some investors who sold their stock cheap and then, for fear of missing out as prices rose, repurchased it as it bounced back.

With hindsight we can see that those who sat tight and played the long game did well.

The only way to do better is to correctly find when a recession is about to hit its peak, and the market has bottomed, and snap up cheap stock as it is offloaded by investors desperate to sell.

IT'S ABOUT YOU

The most important aspect of choosing when to invest is your own readiness. Ask yourself, can you afford it? Only when you have life's essentials covered is it sensible to consider investing.

Consider what other options might be available before jumping straight to investment. With low interest rates, cash savings are currently of historically low value, but most people choose to take advantage of available low-risk, higher-yield options first.

Equally, you need to be sure you're at a stage in life where you can be confident of being able to bear any losses, or are in a position to hold your nerve as your investment's value fluctuates.

Never risk more of your money than you can afford to lose. Investing isn't a game. It should be part of a long-term strategy that takes into account your financial situation and your goals.

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