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When is the right time to invest?

Why market timing rarely works—and why long-term consistency matters

Some people delay investing because they're waiting for "the right moment." The idea of buying when prices are low and selling when they're high seems sensible in theory, but in practice, it's very difficult to perform. Even experienced professionals struggle to predict short-term market movements accurately, and headlines or emotions can easily cloud judgment. Meanwhile, cash sitting on the sidelines loses potential for compounding over time, which is one of the most powerful drivers of long-term growth.

History shows that market timing often causes investors to miss opportunities rather than achieve better results. Missing just a few of the market's best days can sharply lower long-term returns, and those significant gains often occur during volatile periods, exactly when many investors feel most tempted to withdraw. A more reliable strategy is to invest regularly, stay diversified, and focus on remaining in the market instead of trying to forecast short-term fluctuations.

WHY WAITING CAN WORK AGAINST YOU

Holding cash can seem like the safest choice, especially when interest rates are high. During the peak of the rate cycle in 2024, the Bank of England's base rate reached 5.25%, its highest point in 15 years[1]. Some savers secured these returns, but conditions have already started to change, with the base rate now at 4%.

When interest rates decrease, returns on cash usually decline as well. Over extended periods, inflation erodes the real value of savings, causing cash balances to struggle to keep up with rising prices. In 2022, for instance, UK inflation peaked at 11.1%, much higher than most savings account rates at that time. This illustrates how even appealing headline rates can fail to preserve purchasing power in the long run.

LIMITS OF MARKET TIMING

Financial markets display unpredictable behaviour in the short term, responding to factors such as economic data, company performance, and geopolitical events. Even professional fund managers with years of experience and access to advanced research tools find it challenging to consistently buy and sell at the most advantageous moments. Missing just a few of the market's strongest days can have a lasting impact on long-term returns.

Investors who attempt to wait for the next "dip" often find themselves buying at higher prices once the market recovers. Conversely, those who remain invested throughout various market cycles tend to benefit from both downturns and subsequent recoveries, allowing compounding returns to grow over time.

LONG-TERM ADVANTAGE OF STAYING INVESTED

Market data over the past twenty years indicates that long-term investing has generally outperformed holding cash, even during major downturns such as the 2008 financial crisis and the COVID-19 pandemic[2]. This performance difference mainly results from dividends, reinvested gains, and the power of compounding over time in the market.

In contrast, cash does not grow in the same way. It may provide steady interest, but its real value is heavily affected by inflation. Over long periods, this means cash tends to fall behind diversified investment portfolios that benefit from growth across different sectors and regions.

TIMING THE MARKET IS RARELY THE KEY TO SUCCESS

Holding cash remains essential for short-term needs and emergencies. A healthy cash buffer can reduce stress and offer flexibility when unexpected events occur. However, keeping large sums uninvested for a long time can limit potential growth, especially as interest rates start to fall and inflation subtly erodes purchasing power.

The "right time" to invest often depends less on predicting markets and more on having a clear time horizon, realistic return expectations, and the ability to remain patient through fluctuations. Setting an asset allocation that matches your goals, automating contributions, and rebalancing regularly can help you stay disciplined without relying on market timing. ■

LOOKING TO FIND THE BALANCE BETWEEN CAUTION AND GROWTH?

To find out more or understand the trade-offs between cash and investments, and how they could help shape better financial decisions for your unique situation over time, please contact us.

Source data:

[1] Bank of England – Official Bank Rate history 2021 to 2025 – https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp

[2] Office for National Statistics – Statistical bulletin The national balance sheet and capital stocks, preliminary estimates, UK: 2024