(UBS)

Time in the market matters more than timing the market.

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The Dow Jones Industrial Average closed above 40,000 for the first time on 17 May 2024.

40,000 is such a big number that it's difficult to digest. To help put this milestone into historical perspective, on average, it has taken about 12 years for the index to double, but it took about 30 years to double following the Great Depression and nearly 18 years following the Tech Bubble. The most recent doubling took a little over 7 years, because the Dow first reached 20,000 in January 2017.

The Dow is far from an ideal index. It is a price-weighted index that tracks just 30 US stocks, so it isn't a great benchmark for most diversified portfolios.

Even so, its impressive long-term track record helps to remind us of some important lessons:

1. Compounding is powerful. The doubling time data above is for the Dow based on its index level, which does not include dividend reinvestment; when viewed on a total return basis, the average doubling time falls to just 7 years.

2. Time in the market matters more than timing the market. The market rewards patience. When you have a long investment time horizon, market losses are far rarer, and it becomes clearer that market volatility is an opportunity rather than a threat. Some of your portfolio's dollars are earmarked for spending in 40+ years; if you have excess cash sitting in a money market fund earning a 5.5% yield (earning ~3.3% after taxes), investing those dollars for growth could make an enormous difference.

3. Diversification is crucial. The large dispersion in doubling times is a reminder that stock markets often dole out returns in fits and starts, rather than in a smooth trajectory. This is one reason we often stress the importance of a globally diversified balanced portfolio, especially in retirement. Diversified portfolios help to deliver consistent growth and income and reduce the risk of a "lost decade" where investments struggle to make new highs.

How long will it take your portfolio to double?
As a quick bonus, here is a formula for approximating "doubling time" (which can be helpful if you don't have a calculator handy; compounding growth is not intuitive!):

72 ÷ Expected annualized return = Doubling time (in years)

For example, if you get a 7.2% annual return, you get 72 ÷ 7.2% = 10 years for your investment to double. If you are investing $1 today at a 7.2% growth rate, and you plan to spend that dollar in 40 years, it will have time for about 4 doubling times, turning $1 into approximately $16 ($1 × 2 × 2 × 2 × 2 = $16).

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For more, see the blog, **Dow 40,000 and doubling time**, 17 May, 2024.