On The Mark

ASSETMARK

August 2025

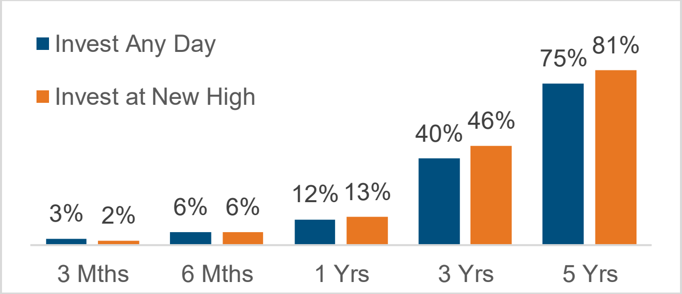
Don’t Fear the High

Key Takeaways

- Market highs tend to cluster and **lead to more highs** as momentum carries the market.
- Investing on days when the market is at a new high can **provide similar results** to investing on any day.
- Balance the fear of missing out and fear of loss around a market high through **disciplined investing**.

Looking back at the S&P 500 from the 1920s to today, investing on a day when the market is at an all-time high led to an average long-term return that is similar to investing on any random day.

S&P 500 Average Cumulative Return (1/1/80 – 12/31/24)



Source: JPM

Investing at market highs can feel like walking into a party right when the lights come on — it’s still technically the same event, but the vibe (and the upside) has changed.

Why the Vibe Changes

Emotions! The media loves to create a frenzy and blast out headlines about ‘stocks at record highs,’ sounding like a warning sign and attacking our emotions.

As the market marches upwards, hundreds of highs are created, but recency bias leads to the big peaks before crashes (2000, 2007) having more of a lasting impact on our memory. We fear tops more than bottoms, and losing money after buying feels worse than missing gains.

So, has the vibe really changed?

‘Getting Down’ with Data

If you strip away the emotion and just look at the data, investing at market highs versus “any random day” has a surprisingly important truth.

These somewhat surprising results are due to the fact that market highs tend to cluster together during strong uptrends. In the 14 instances where the S&P 500 hit a fresh high at least one year after its last high, the subsequent 12-month return was positive 13 times, with an average return of 17.1%. The market wants to party all night long and keep the vibe going.

While we never know when a true market peak occurs until after the event, there is psychological churning when buying high and seeing your investment take a quick loss. So, how do you manage investing for those long-term goals with the emotions that go along for the ride?

Stagger the Entry

To help balance the fear of loss with the fear of missing out, disciplined investment over time, otherwise known as dollar cost averaging (“DCA”), can help manage emotions. Splitting up the investment into smaller chunks over time rather than investing in one lump sum helps provide some psychological comfort, especially if the market experiences a large drop or is extremely volatile.

Using DCA to invest at market peaks, like in 2000 or 2007, saw better returns over the subsequent 5-year period compared to lump sum investing. The DCA portfolios cushioned some of the losses in the short term, and by providing a smoother ride, they reduced the emotional strain during the market volatility. However, note that over the longer term of 10 years or more, lump sum investors caught up.

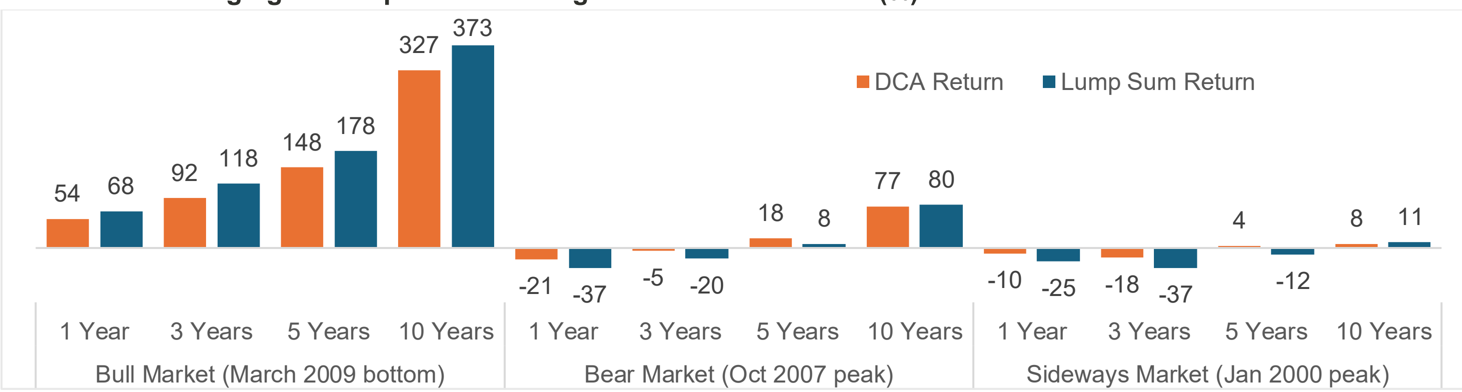
Focus on the Process

We are often reminded that investing tends to be a marathon, not a sprint. When investing for the long term, the impact of the starting point tends to fade as earnings grow, and the compound effect of reinvesting dividends dominates more of the return. Waiting for the next major dip could mean missing out on further gains.

Over the long term, lump sum investing tends to outperform DCA, but it does require a strong stomach that can handle large short-term drops. DCA, in contrast, is a way to minimize regret, reduce the stress of 'bad timing', and provide a steadier ride.

Discipline is key, and focusing on the process rather than headlines will help investment goals become realities.

Dollar Cost Averaging vs Lump Sum Investing – Cumulative Returns (%)



Source: AssetMark

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8273084.1 | 08/2025 | EXP 08/2027