# Opportunity Costs of Market Timing Tactics

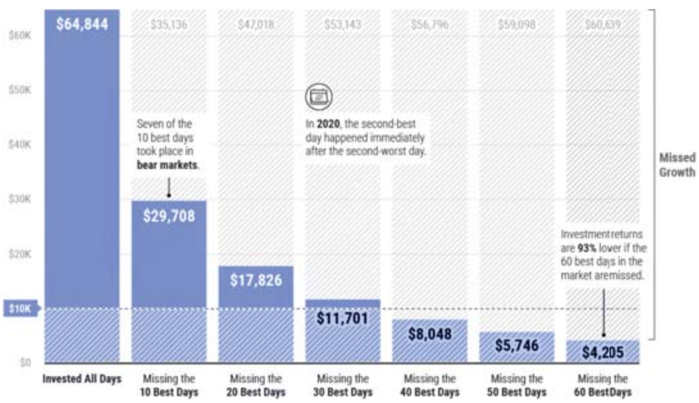
Integrity Viking Funds offers the tools needed to build an effective asset allocation strategy. Our family of mutual funds includes a variety of equity and fixed-income portfolios, each managed with a goal of generating attractive, risk-adjusted performance.

## The Importance of Staying Invested

The stock market can be irrational but it is efficient, rewarding investors who stay committed. A $10K investment held in the S&P 500 in January 2003 equated to $65K in December 2022.

As an example, Chart 1 demonstrates the cost of timing the market and the value of long term investing. **Missing the 10 best days would have led to a 50% reduction in value**. It's also important to note that **7 of the best 10 days occurred during bear markets** when money tends to flow into safer assets such as money market funds.

Chart 1: The Cost of Timing the Market
Value of $10,000 Invested in the S&P 500 (Jan 2003 - Dec 2022)




Source: JP Morgan, S&P 500 index total returns from 1/1/2003 to 12/31/2022.

## Missed Opportunity

Investors piled into money market funds at a record pace in 2023, bringing the total assets held to $5.5 trillion. Many viewed the 5% rates as safe and, once the market settled or bottomed, intended to return those funds to the equity market. Simultaneously, institutional investors piled into growth, driving the Nasdaq up double digits and leaving those who moved into money markets scratching their heads and asking how they missed the rally.

A great example of market timing resulting in a missed opportunity is the 1st half of 2023 where returns for the Large Growth category were at +24%, Large Value +4%, and S&P 500 TR +16% through 6/30/2023. Money market returns were only +2% for the same period.

In hindsight, moving money out of large cap equities and into money market funds had significant opportunity cost. If equities continue performing as they have throughout the history of the stock market, **the opportunity cost of money market funds could grow the longer they're held.**

Chart 2: Returns as of 6/30/2023

| Category | YTD % | 3-Yr % | 5-Yr % | 10-Yr % |
|---|---|---|---|---|
| Large Growth | 24.20 | 9.53 | 11.37 | 13.02 |
| Large Value | 4.47 | 14.59 | 8.12 | 9.11 |
| S&P 500 TR | 16.90 | 14.60 | 12.31 | 12.86 |
| Money Market Taxable | 2.15 | 1.16 | 1.29 | 0.77 |

Source: Morningstar, 6/30/2023

## What About "Risk-Free" Treasuries?

According to the WSJ article, *The Scary Math Behind the World's Safest Assets* (12Aug2023), investors have historically paid a steep penalty to hunker down in supersafe short-term government securities. According to data from New York University finance professor Aswath Damodaran, $100 invested in 3-month Treasury bills in 1928 only grew to $2,141 by the end of last year while it became $46,379 invested in medium-grade corporate bonds and a whopping $624,534 if invested in stocks. This illustrates the potential opportunity cost of investing in treasuries.

That being said, where can serious long-term investors find lower-risk income opportunities? Historically, companies that grew or initiated a dividend have experienced the highest returns relative to other stocks since 1973 with significantly less volatility as noted in Chart 3.

Chart 3: Average Annual Returns & Volatility by Dividend Policy -- S&P Index 1973-2022

| | Returns % | Beta | Standard Deviation % |
|---|---|---|---|
| Dividend Growers & Initiators | 10.24 | 0.88 | 16.15 |
| Dividend Payers | 9.18 | 0.94 | 16.90 |
| No Change in Dividend Policy | 6.60 | 1.01 | 18.55 |
| Dividend Non-Payers | -0.60 | 1.22 | 25.04 |
| Dividend Cutters & Eliminators | 3.95 | 1.18 | 22.17 |
| Equal-Weighted S&P 500 Index | 7.68 | 1.00 | 17.76 |

Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Sources: Ned Davis Research and Hartford Funds, 12/2022.

## Growth Versus Value

Despite periods of outsized returns for growth, from 1927 through 2019, value stocks outperformed growth stocks 93% of the time over rolling 15-year time periods, according to the data compiled by Nobel laureate Eugene Fama and Dartmouth professor Kenneth French. Staying invested in value stocks has historically proven to be a sound strategy.

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Integrity Funds Distributor, LLC | 1 Main St N | Minot, ND 58703
800-276-1262 | integrityvikingfunds.com | Member: FINRA