MOMENTUM NATION

Planting the Momentum Tree

Looking beyond the perfect timing

Key Takeaways

- Waiting for the "right" time to invest can make the window for acting remarkably narrow.
- A hallmark of momentum is that it is inherently adaptable, repositioning as market leadership changes.
- For long-term investors, appropriate strategic allocation matters more than finding a perfect entry point.

There is an old proverb: the best time to plant a tree was twenty years ago. The second-best time is today.

Investing often presents a similar dilemma. The right time to invest rarely feels like the right time.

When a strategy has performed exceptionally well, investing can feel like chasing returns. When it has struggled, waiting for evidence of a recovery can feel prudent. Both instincts are understandable. Together, however, they can make the window for investing remarkably narrow.

Momentum offered a good example this July.

After a period of exceptional strength, momentum experienced a sharp pullback. Before July, the question was whether momentum had performed too well to buy. After July, the question became whether it was too early to buy.

So when, exactly, is the right time?

Not every drawdown should be bought. But momentum has an important characteristic that distinguishes it from many other factors: it adapts.

Value, quality, and growth are comparatively rigid. A value portfolio can remain cheap for years. Quality can remain out of favor through an innovation cycle. Growth can remain out of favor for extended periods as expectations reset and the market waits for expensive valuations to earn their way out. In each case, the portfolio continues to own the characteristic it was designed to own—and waits for the market to come back to it.

That matters when thinking about whether a pullback represents an attractive entry point. Weak performance in a relatively static factor can persist because the portfolio itself does not fundamentally adapt to changing market leadership.

Momentum works differently.

When leadership changes, momentum changes with it. As established trends weaken and new ones emerge, the portfolio can rotate toward the market's new leadership. And when former leaders absorb a correction and reassert themselves, momentum can gravitate back toward them as well.

That makes a momentum pullback particularly interesting.

Sharp reversals often occur when market leadership changes faster than a portfolio can reposition. The resulting drawdown can be painful, as July demonstrated. But the portfolio does not stand still. Weakening trends lose momentum, emerging trends gain it, and former leaders that regain their footing can once again rise to the top.

Buying momentum after a pullback, then, is not simply a bet on a rebound. It is an investment in the process of adaptation.

Waiting until the picture looks better may feel prudent. But with momentum, better-looking performance often means the adaptation has already occurred, new trends have become established, and some of the opportunity has passed.

There is no way to know whether July marked the bottom. It may not have. The goal is not to identify the perfect moment. It is to recognize when the opportunity has improved.

But there is a more important point about timing: It is always the right time to do what is right for the portfolio.

If the long-term objective is a properly balanced portfolio—diversified across factors and sources of return—maintaining that balance should not depend on finding the perfect entry point. Strategic allocation should come first; timing should come second.

That does not mean all entry points are equal. Some are simply better than others.

For investors underallocated to momentum, a significant pullback may represent one of those times. We do not know whether the pullback is over, or what comes next. We simply know that the starting point is different—and potentially more attractive—than it was before.

The temptation is to wait for greater clarity. But clarity usually arrives with better performance, and better performance often comes with a less attractive entry point.

There may be no perfect time to invest. Just as with planting the tree, waiting for perfect conditions can become a reason never to begin.

The conditions do not have to be perfect. They simply have to be better. And this may be one of those times.

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