29 August 2025

Use market regimes cleverly and invest optimally

Anyone who has inherited money, sold their business, won the lottery, or otherwise has a large investment amount faces three fundamental decisions:

1) What should I invest in?
2) Should I get in immediately or wait for a market downturn?
3) Should I invest the entire amount at once or split it into tranches?

While the main focus of financial news is on the first question, we address the last two. Our working hypothesis is: Finding the perfect entry point in the stock market is almost impossible. Those who invest long-term should therefore start quickly, because waiting too long often costs returns. Is this hypothesis correct, or is it worthwhile to maintain financial reserves to buy more during market downturns? This raises the question of how large the initial portion of risky investments should be and at what loss threshold should one buy more.

How did we test?

To answer these questions, we developed an experimental design that makes timing and tranche strategies comparable across different market phases. For example, a first hypothetical investor starts entirely in the money market, i.e., with zero percent equity, and only shifts the entire amount into the equity market when a predefined market loss threshold, such as minus five percent, is undercut; the money market position is sold completely. A second hypothetical investor initially makes a partial investment in equities, e.g., 20 percent of their total investment volume, which is increased to a 100 percent equity allocation when market declines along defined loss limits. To ensure the robustness of the results, we vary the starting point of a ten-year investment period, the initial equity allocation, and test several repurchase thresholds. The analysis covers the US, measured by the S&P 500, and Europe, represented by the STOXX Europe 600, over the period from 2000 to 2025. As a target, we use the average money-weighted return (annualized), which takes into account the different timing of the cash flows.

What are our results?

Table 1: average money-weighted return p.a. in the period ***2000 to 2025***

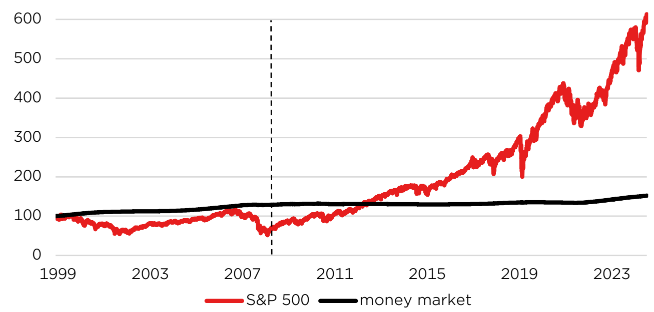
		loss threshold					
	start stock ratio	-5%	-8%	-10%	-15%	-20%	-25%
USA (in USD)	0%	7.2%	7.0%	7.1%	7.1%	6.8%	6.9%
	10%	7.3%	7.1%	7.1%	7.2%	7.0%	7.1%
	20%	7.4%	7.2%	7.3%	7.3%	7.1%	7.2%
	30%	7.5%	7.3%	7.4%	7.4%	7.3%	7.4%
	40%	7.5%	7.4%	7.5%	7.5%	7.4%	7.5%
	50%	7.6%	7.5%	7.6%	7.6%	7.6%	7.6%
	60%	7.6%	7.6%	7.6%	7.7%	7.6%	7.7%
	70%	7.7%	7.7%	7.7%	7.7%	7.7%	7.8%
	80%	7.7%	7.7%	7.8%	7.8%	7.8%	7.8%
	90%	7.8%	7.8%	7.8%	7.8%	7.8%	7.9%
	100%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%
Europe (in Euro)	0%	5.4%	5.3%	5.1%	5.0%	4.8%	4.0%
	10%	5.3%	5.2%	5.0%	5.0%	4.8%	4.2%
	20%	5.2%	5.2%	5.0%	5.0%	4.8%	4.3%
	30%	5.2%	5.1%	5.0%	5.0%	4.9%	4.5%
	40%	5.2%	5.1%	5.0%	5.0%	4.9%	4.6%
	50%	5.1%	5.1%	5.0%	5.0%	5.0%	4.7%
	60%	5.1%	5.1%	5.0%	5.0%	5.0%	4.8%
	70%	5.1%	5.1%	5.1%	5.1%	5.0%	4.9%
	80%	5.1%	5.1%	5.1%	5.1%	5.1%	5.0%
	90%	5.1%	5.1%	5.1%	5.1%	5.1%	5.0%
	100%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%

source: LSEG Datastream and own calculations.

A first glance shows that the results are relatively close. In the US, an investor who initially invested all of their capital in the S&P 500 would have achieved an average annualized return of 7.9 percent. Because this strategy doesn't have any available capital for additional purchases, the return is identical regardless of any drawdown thresholds. If the same investor had initially remained entirely in the money market and only shifted completely into the S&P 500 after a stock market decline of five percent, the money-weighted return would be 7.2 percent. Overall, the range in the US is narrow: in the best case, 7.9 percent (100 percent equity allocation at the start) and in the worst case, 6.8 percent (0 percent initial equity allocation, additional purchases starting at minus 20 percent). However, even a return difference of one percentage point per year over a long period leads to noticeable wealth differences due to the compound interest effect.

In Europe, the picture is similar, albeit at a lower return level. The range between the best and worst results is also narrow: 5.4 percent (0 percent starting quota, follow-up purchases starting at minus five percent) versus 4.0 percent (0 percent starting quota, follow-up purchases starting at minus 25 percent). Unlike in the US, however, the European results suggest that a high initial equity allocation is only relatively advantageous if the loss threshold for follow-up purchases is set low (starting at minus 15 percent).

USA: equity and money market performance



source: LSEG Datastream

Why don't the strategies provide a clearer picture, and why are the money-weighted average returns so close together? The answer lies in breaking down the entire period from 2000 to 2025 into two market regimes. From the dot-com bubble to the 2008 financial crisis, equity markets underperformed money markets (S&P 500: minus 3.9 percent p.a.; STOXX Europe 600: minus 4.5 percent p.a. versus US money market: 2.7 percent p.a.; Eurozone: 2.5 percent p.a.). Starting in 2009, the picture reversed: equities achieved significantly higher returns than money markets (S&P 500: 13.4 percent p.a.; STOXX Europe 600: 9.0 percent p.a. versus US money market: 1.0 percent p.a.; Eurozone: 0.4 percent p.a.).

The analysis of average money-weighted returns, broken down by market regime, reveals a clear pattern. During the initial market regime, with equity markets trending sideways to downwards, it was advantageous in the US and Europe to initially not be invested in equity markets and to enter only after significant setbacks. Entry at very low loss thresholds performed particularly well in the US (for example, from minus 25 percent with an average money-weighted return of 10.5 percent p.a.) and in Europe at minus 20 percent (6.8 percent p.a.). An immediate 100 percent entry at the beginning proved clearly inferior in this regime (US: 5.3 percent p.a.; Europe: 3.7 percent p.a.).

Table 2: average money-weighted return p.a. in the period ***2000 to 2008***

		loss threshold					
	start stock ratio	-5%	-8%	-10%	-15%	-20%	-25%
USA (in USD)	0%	7.9%	8.9%	9.6%	10.0%	10.2%	10.5%
	10%	7.4%	8.2%	8.8%	9.1%	9.4%	9.6%
	20%	7.0%	7.7%	8.2%	8.5%	8.7%	9.0%
	30%	6.7%	7.3%	7.7%	8.0%	8.2%	8.4%
	40%	6.4%	6.9%	7.2%	7.5%	7.7%	7.9%
	50%	6.2%	6.6%	6.8%	7.1%	7.2%	7.4%
	60%	6.0%	6.2%	6.5%	6.7%	6.8%	7.0%
	70%	5.8%	6.0%	6.2%	6.3%	6.4%	6.5%
	80%	5.6%	5.7%	5.9%	5.9%	6.0%	6.1%
	90%	5.4%	5.4%	5.6%	5.6%	5.6%	5.7%
	100%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Europe (in Euro)	0%	5.8%	6.2%	6.6%	6.7%	6.8%	6.3%
	10%	5.4%	5.8%	6.1%	6.2%	6.3%	6.0%
	20%	5.1%	5.4%	5.7%	5.8%	5.9%	5.7%
	30%	4.9%	5.1%	5.4%	5.5%	5.6%	5.4%
	40%	4.6%	4.9%	5.1%	5.2%	5.3%	5.1%
	50%	4.4%	4.6%	4.8%	4.9%	5.0%	4.9%
	60%	4.2%	4.4%	4.5%	4.6%	4.7%	4.6%
	70%	4.1%	4.2%	4.3%	4.4%	4.4%	4.4%
	80%	3.9%	4.0%	4.1%	4.1%	4.2%	4.2%
	90%	3.7%	3.8%	3.9%	3.9%	3.9%	3.9%
	100%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%

source: LSEG Datastream and own calculations.

Table 3: average money-weighted return p.a. in the period ***2009 to 2025***

		loss threshold					
	start stock ratio	-5%	-8%	-10%	-15%	-20%	-25%
USA (in USD)	0%	6.0%	3.7%	2.7%	2.0%	0.9%	0.6%
	10%	7.1%	5.1%	4.3%	3.7%	2.8%	2.6%
	20%	8.0%	6.3%	5.7%	5.2%	4.4%	4.2%
	30%	8.8%	7.4%	6.8%	6.4%	5.8%	5.6%
	40%	9.4%	8.3%	7.9%	7.5%	7.0%	6.9%
	50%	10.0%	9.2%	8.8%	8.5%	8.1%	8.0%
	60%	10.6%	9.9%	9.7%	9.4%	9.1%	9.0%
	70%	11.1%	10.6%	10.4%	10.3%	10.0%	10.0%
	80%	11.5%	11.3%	11.1%	11.0%	10.9%	10.8%
	90%	12.0%	11.8%	11.8%	11.7%	11.7%	11.6%
	100%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
Europe (in Euro)	0%	4.7%	3.6%	2.4%	1.9%	1.2%	-0.1%
	10%	5.1%	4.2%	3.2%	2.7%	2.1%	1.0%
	20%	5.4%	4.7%	3.8%	3.4%	2.9%	1.9%
	30%	5.8%	5.1%	4.4%	4.1%	3.6%	2.8%
	40%	6.1%	5.6%	5.0%	4.7%	4.3%	3.6%
	50%	6.4%	5.9%	5.5%	5.2%	4.9%	4.4%
	60%	6.6%	6.3%	5.9%	5.8%	5.5%	5.1%
	70%	6.9%	6.6%	6.3%	6.2%	6.1%	5.7%
	80%	7.1%	6.9%	6.8%	6.7%	6.6%	6.3%
	90%	7.3%	7.2%	7.1%	7.1%	7.0%	6.9%
	100%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%

source: LSEG Datastream and own calculations.

In the second regime – the pronounced bull market – the picture reverses. Here, it paid off to allocate the entire investment volume as early as possible and to invest remaining liquidity even during minor setbacks. A US investor who was fully invested from the start achieved an average money-weighted annual return of 12.4 percent. In contrast, someone who initially remained entirely in the money market and only entered when the

S&P 500 Index fell by five percent achieved only six percent – roughly half. The return was even worse if the investor only entered at a very high loss threshold (for example, minus 25 percent). In a predominantly rising market, the investor was not invested at all for a long time, collecting only the comparatively low money market returns and thus wasting substantial income. The money-weighted average return in this case was approximately 0.6 percent per year. A similar pattern emerges for a euro investor.

What is our conclusion?

There is no simple, universally applicable timing and tranche strategy. The optimal entry strategy depends not only on risk tolerance and return targets, but primarily on the prevailing market regime. In sideways or downward-trending phases, a cautious initial equity allocation and disciplined follow-up purchase rules after major setbacks are sensible. In uptrend markets, investing early and as comprehensively as possible is superior; waiting too long or setting excessively high entry barriers significantly reduce the return potential.

Because the future market regime cannot be determined in advance with absolute certainty, a pragmatic middle ground is recommended for larger lump sums: dividing the volume into two or three tranches and investing over time according to clearly defined rules. Such guardrails reduce the risk of emotional decisions. Typical pitfalls include overconfidence, the illusion of perfect timing, herd instinct, the so-called disposition effect (realizing profits too early, riding out losses), and decision paralysis. Automated purchase execution helps minimize these errors.

For investors without large lump sums, the timing issue is less of an issue. Regular savings plans prove their worth: They promote discipline, smooth entry points through the cost-average effect, and mitigate emotionally driven mistakes such as panic selling during corrections or procyclical purchases after sharp increases. Broad diversification, a clear goal, and a consistent investment process remain the most important building blocks for long-term success.

Simon Landt

Market data

Stock marktes	As of 29.08.2025 07:53	Change versus 22.08.2025 -1 week	28.07.2025 -1 month	28.05.2025 -3 months	28.08.2024 -1 year	31.12.2024 YTD
Dow Jones	45637	0,0%	1,8%	8,4%	11,1%	7,3%
S&P 500	6509	0,7%	1,9%	10,5%	16,4%	10,7%
Nasdaq	21705	1,0%	2,5%	13,6%	23,6%	12,4%
DAX	24040	-1,3%	0,3%	0,0%	28,0%	20,7%
MDAX	30358	-2,1%	-2,2%	-0,9%	20,4%	18,6%
TecDAX	3743	-1,0%	-2,5%	-2,8%	11,4%	9,5%
EuroStoxx 50	5397	-1,7%	1,1%	0,3%	9,8%	10,2%
Stoxx 50	4582	-1,0%	1,5%	1,1%	1,5%	6,3%
SMI (Swiss Market Index)	12219	-0,4%	2,6%	0,3%	-1,0%	5,3%
Nikkei 225	42829	0,5%	4,5%	13,5%	11,6%	7,4%
Brasilien BOVESPA	141049	2,2%	6,8%	1,6%	2,7%	17,3%
Indien BSE 30	80201	-1,4%	-0,9%	-1,4%	-1,9%	2,6%
China CSI 300	4487	2,5%	8,5%	17,0%	36,5%	14,0%
MSCI Welt	4200	0,2%	2,0%	9,2%	15,7%	13,3%
MSCI Emerging Markets	1261	-0,4%	0,5%	8,4%	15,0%	17,3%
Bond markets						
Bund-Future	129,69	25	-4	-114	-440	-375
Bobl-Future	117,46	12	4	-153	-29	-40
Schatz-Future	107,06	0	-8	-27	81	8
3 Monats Euribor	2,03	2	2	2	-147	-68
3M Euribor Future, Dec 2025	1,96	1	8	22	-22	6
3 Monats $ Libor	4,26	-1	-14	-9	-95	-11
10 year US Treasuries	4,22	-3	-20	-26	37	-35
10 year Bunds	2,70	3	5	15	51	34
10 year JGB	1,61	0	7	10	71	53
10 year Swiss Government	0,34	0	-4	8	-11	7
US Treas 10Y Performance	627,76	0,5%	2,1%	3,4%	1,6%	6,1%
Bund 10Y Performance	560,53	0,2%	0,2%	-0,2%	-0,9%	-0,7%
REX Performance Index	458,87	0,3%	0,2%	0,0%	1,8%	1,4%
IBOXX AA, €	3,12	-1	4	7	-5	8
IBOXX BBB, €	3,42	0	4	-5	-26	-4
Commodities						
MG Base Metal Index	429,84	0,7%	-0,6%	2,6%	2,8%	6,0%
Crude oil Brent	68,31	0,8%	-2,6%	5,3%	-13,5%	-8,6%
Gold	3409,99	1,0%	3,0%	3,4%	36,0%	29,9%
Silver	32,54	0,0%	0,0%	0,0%	10,8%	9,6%
Aluminium	2611,13	-0,6%	-0,8%	5,8%	5,8%	3,3%
Copper	9735,21	0,2%	0,0%	1,3%	6,6%	12,5%
Iron ore	101,71	0,3%	3,1%	2,3%	3,2%	-1,8%
Freight rates Baltic Dry Index	2017	3,8%	-9,4%	54,8%	14,9%	102,3%
Currencies						
EUR/ USD	1,1665	0,5%	0,1%	3,1%	4,9%	12,3%
EUR/ GBP	0,8642	-0,3%	-0,4%	3,0%	2,6%	4,5%
EUR/ JPY	171,45	-0,7%	-0,7%	4,9%	6,8%	5,1%
EUR/ CHF	0,9358	-0,3%	0,3%	-0,1%	-0,2%	-0,6%
USD/ CNY	7,1315	-0,5%	-0,7%	-0,9%	0,1%	-2,4%
USD/ JPY	146,93	0,0%	-1,1%	1,4%	1,6%	-6,5%
USD/ GBP	0,74	0,2%	-0,6%	-0,2%	-2,1%	-7,2%

Source: LSEG Datastream

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