

WHAT HURTS PEOPLE'S INVESTMENT RETURNS MOST? THEIR OWN PSYCHOLOGY



In a few weeks, calendar year 2018 will come to a close. We may see results that could use improvement.

Each year, DALBAR Inc., the nation's leading financial services market research firm, issues their Quantitative Analysis of Investor Behavior Report (QAIB) in which they examine real investor returns in equity, fixed income, and asset allocation funds.¹

Beginning the 1980s, they take a thirty year look at average returns for various broad-based indexes and then compare those numbers to the performance realized by actual investors. Last year's report analyzed data from 1987-2017, including the recovery from the crash of 1987, the drop and recovery at the turn of the millennium, and the downturn and recovery after 2008.

While the markets had their ups and downs, DALBAR found that over the three decade period the S&P 500 Index made annual average gains of 11.96%.

But for the same timespan, equity fund *investors* averaged returns of only 7.26%. That means they realized less than 61% of the gains they could have made simply by getting the broad index return. In most schools that percentage would earn a low D minus.

Why are investors on average doing so poorly in comparison to the broad stock market benchmark?

The QAIB report looked at factors that can hinder performance, including taxes, trading costs, and fees. But they found that far and away the biggest detriment to investors' returns was their own misguided behavior.

DALBAR states it plainly: "Investment results are more dependent on investor behavior than

on fund performance."

Specifically, they found that the average investor is likely to jump in and out of investments every few years, with timing that cements their losses and hamstringing their gains.

A Psychological Problem

Why are people so prone to act against their own best interests when it comes to investing their hard-earned money? The report identifies nine separate irrational investment behavior biases, ranging from "narrow framing" (not looking at the big picture) to "anchoring" (focusing on the past) to "mental accounting" (justifying losses).

Summarizing the 2017 QAIB report for MarketWatch, analyst Lance Roberts says that the two worst of these biases are the "herding effect" and "loss aversion."

"These two behaviors tend to function together," he says. Investors chase performance, buying high and expecting the instrument to go up indefinitely, then as it goes down, selling when the anxiety becomes too much.²

In other words, underperformance is caused by the psychological behavior of the investor.

"This is why," Roberts says, "all great investors have strict investment disciplines that they follow to reduce the harm of human emotions."

And this seemingly ingrained psychological factor is also why we don't expect this year's report card for the average investor to be much better than the previous ones. Recent stock market volatility increases the temptation to undermine long-term return results by over-focusing on short term noise. Unfortunately, many investors who haven't learned from history will probably be bound to repeat it.

You, however, don't have to endure the costly mistakes of your peers. We can help you avoid the behaviors that can hamper your long-term investing goals no matter what the market is doing in the short-term.

Have a great weekend!

Source: Efficient Advisors

Golf Tip of the Week



Putt Away the Pressure!

You're on the last hole. You're on the green. It's been a great day on the course. If you sink this, you'll achieve a personal best, and your friends will brag about your game for the next 10 years.

Everybody's watching. Your best game ever is at stake. Then suddenly you freeze. Too much pressure!

You're not alone.

Pressure can ruin the best of games. So, how do the pros overcome the pressure—when the cameras are on and the announcers are whispering?

Develop a standard putting routine, a kind of generic version you can pull out of your bag for every game use.

A kind of pre-putt, it should follow the same pattern, the same timeline, every time.

Most golfers have the habit of slowing (or, with some, speeding it up) when the pressure mounts. But the delay (or the rush) reinforces the tendency to second-guess yourself.

Once you develop a standard routine, practice it frequently so you're able to do it in pressure settings, at a moment's notice.

Tip adapted from GolfDigest¹

Recipe of the Week

Collard Greens with Bacon and Cider Vinegar



Serves 12

Ingredients:

3 pounds collard greens
4 slices bacon, cut into ¼"-wide strips
1 medium onion, coarsely chopped
2 tablespoons cider vinegar
¼ teaspoon salt
¼ teaspoon coarsely ground black pepper

Directions:

1. Throw away the tough stems of the collard greens.
2. Chop up and then rinse the collard greens.
3. Add bacon and onion to an 8-quart sauce pot.
4. Over medium heat, cook until the onion is tender, and the bacon browned, stirring occasionally, about 15 minutes.
5. Turn the heat to medium-high. Slowly add the collard greens and stir until the greens are wilted.
6. Lower the heat to medium-low, cover the pot, and cook until the ingredients are tender, about 10 minutes.
7. Turn the heat to medium-high, uncover the pot and continue cooking, while stirring, until most of the liquid has evaporated.
8. Add vinegar, salt, and coarsely ground black pepper while stirring.

Recipe adapted from Good Housekeepingⁱⁱ

Health Tip of the Week



Causes and Treatment of Dysphagia

If you sometimes have difficulty swallowing, you may have dysphagia. People with dysphagia have trouble getting food to pass from their mouths to their stomachs. Nerve or muscle problems usually cause dysphagia, which is more common in older people and babies.

Problems in any part of the swallowing process can indicate dysphagia.

Dysphagia symptoms include:

- Choking while eating.
- Coughing or gagging while swallowing.
- Drooling.
- Frequent heartburn.
- Hoarseness.
- Regurgitation.
- Inability to control saliva in the mouth.

Treatment for high dysphagia includes:

- Swallowing therapy.
- Diet modifications, which may include easy-to-swallow foods.
- Tube feeding may help sufferers at a risk of pneumonia, malnutrition, or dehydration.

Treatment for low dysphagia (esophageal) may include:

- Dilation, which involves using a small balloon to widen the esophagus.
- Botulinum toxin (Botox) can be used to paralyze stiff muscles that are causing constrictions.

Tips adapted from MedicalNewsTodayⁱⁱⁱ

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2. http://go.efficientadvisors.com/e/91522/e-again-shows-2017-10-19-print/5rfrm8/592034853?h=vKK5Cpj_DF2im6WNhib6Qc39xRRq-h2hXaS59f0-Fhc

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ⁱ <https://www.golfdigest.com/story/be-like-tiger-beat-pressure-with-a-relentless-routine>

ⁱⁱ <https://www.goodhousekeeping.com/food-recipes/a3919/collard-greens-bacon-cider-vinegar-2664/>

ⁱⁱⁱ <https://www.medicalnewstoday.com/articles/177473.php>