

INVESTOR RETURNS VS INVESTMENT RETURNS

In my earlier notes, you may have seen me say that investment markets have never lost anybody any money, ever. It's investor behaviour that loses them money. To understand this better please keep reading...

Every year, a firm called Dalbar carries out a study called "Quantitative Analysis of Investor Behaviour" or QAIB. The study measures the effects of investor decisions to buy, sell and switch into and out of investment funds over short and long-term timeframes. The results consistently show that the average investor earns less - in many cases, much less - than the investment funds they invest in.

In short, investors underperform the funds they own, simply because they make the wrong decisions at the wrong time for the wrong reason. See below:

Time Frame	Investor Return	Investment Markets	Difference
1 Year	-2.28% per year	1.38% per year	3.66% per year
3 Years	8.85% per year	15.13% per year	6.28% per year
5 Years	6.92% per year	12.57% per year	5.65% per year
10 Years	4.23% per year	7.31% per year	3.08% per year

The study goes on to explain the reasons behind these big differences:

"Investor behaviour is not simply buying and selling at the wrong time, it is the psychological traps, triggers and misconceptions that cause investors to act irrationally. That irrationality leads to buying and selling at the wrong time, which leads to underperformance."

We understand these issues and appreciate that investing your hard-earned money evokes emotion. We don't underestimate the faith you place in our hands as our client.

One of my commitments to my clients is to help them maintain perspective, and continue to follow their carefully crafted financial plan, and therefore avoid becoming a statistic of the next Dalbar QAIB study.

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