LORING WARD

# Don’t Just Do Something, Stand There!

by J. William G. Chettle

You’re in a hurry to get somewhere, but you’re stuck in traffic on a crowded freeway. It seems like the lane you’re in just isn’t moving.  But the cars in the next lane keep passing you. You’re too smart to just sit there, so you change lanes…only to find that now the lane you were just in is moving and you’re stuck again. As you keep changing lanes, you realize you’re actually going slower and getting more frustrated.

It is just like the opening of the movie Office Space.  [Go ahead — take 86 seconds and watch it. I’ll wait. I’m patient.]

Unfortunately, too many investors are impatient and keep changing lanes and finding themselves getting further behind.

As the recently updated DALBAR study of investor behavior found, this impatience has a terrible cost.[1]

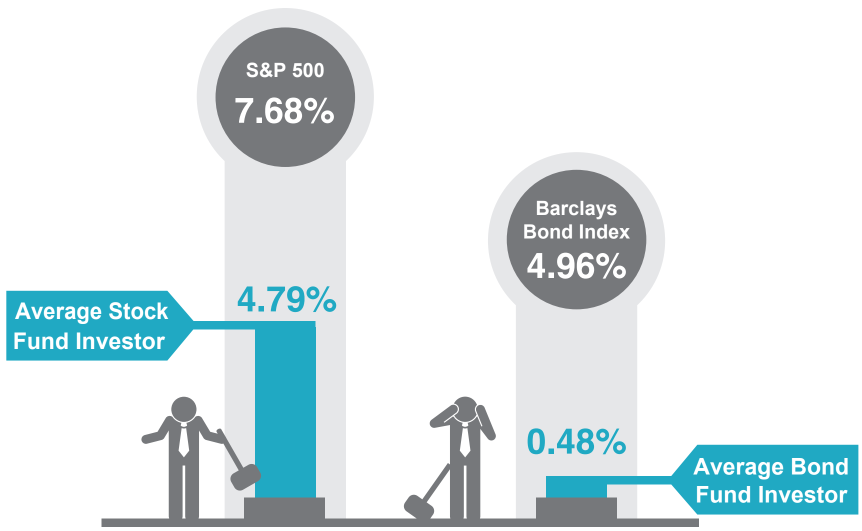
[1] DALBAR Quantitative Analysis of Investor Behavior (QAIB)3/17

As the chart below shows, while the S&P 500 returned an annual average of 7.68% over the last 20 years, the average U.S. stock investor earned just 4.79%. That is an almost 3% difference each and every year.

A gap that large can have a real impact over time on an investor's goals — even quality of life. To put it in dollar terms, if you'd invested $100,000 20 years ago in the S&P 500, it would now be worth **$439,239**.

But if you were the average investor, your $100,000 grew to just **$254,916**.

### Average Investors Underperform Major Indices 1997 – 2016




Average stock investor and average bond investor performances were used from a DALBAR study, Quantitative Analysis of Investor Behavior (QAIB), 03/2017. QAIB calculates investor returns as the change in assets after excluding sales, redemptions, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses, and any other costs. After calculating investor returns in dollar terms (above), two percentages are calculated: Total investor return rate for the period and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for the period.

The fact that buy-and-hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing. Bonds are subject to market and interest rate risk. Bond values will decline as interest rates rise and/or issuer's creditworthiness declines, and are subject to availability and changes in price. Stock investing involves risks, including increased volatility (up and down movement in the value of your assets) and loss of principal.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Barclays Bond Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. Indexes are unmanaged baskets of securities that investors cannot directly invest in. Index returns do not take into consideration any fees.

Past performance is not indicative of future results. Diversification does not guarantee a profit or protect against a loss. Investors with time horizons of less than five years should consider minimizing or avoiding investing in common stocks.

The numbers for fixed income are even more dismal. With results like these, investors should fire themselves.

Why the big difference? Some investors might think they know when to buy and sell. But this means they have to be right twice: picking the right time to get in or out of the market, something few investors — even brilliant hedge fund managers — have been able to do predictably and consistently.

Other investors give in to panic or even greed and make hasty, emotional decisions.

This is why most investors need to work with a financial advisor. Experienced, objective advice and guidance can help keep investors on track and stop them from potentially cutting their long-term returns in half.

As best-selling author and consultant Nick Murray says, “The dominant determinant of long-term, real-life return is not investment performance but investor behavior.”