DOES INVESTOR BEHAVIOR AFFECT RETURNS?

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Witt's Wisdom

"The investor's chief problem – even his worst enemy – is likely to be himself."
Benjamin Graham

Benjamin Graham was an economist, investor and professor at Columbia Business School. Warren Buffett was his most prized pupil and credits Graham with grounding him with a sound intellectual investment framework. Warren Buffett describes Graham's critically acclaimed book, *The Intelligent Investor,* as the "best book about investing ever written". Buffett's strategy is the epitome of the value of a long-term disciplined approach. His net worth is estimated at $70 billion.

Companies like Morningstar have done exhaustive studies that try to quantify the impact of investor behavior on stock market returns. Typically, the studies compare investor's actual returns in stock funds to the average returns of the funds themselves. To be clear, they're trying to compare the returns *investors* get to the returns *investments* get.

The results of the studies find that the returns *investors* have earned are much lower than the returns of the average *investment*. So let's examine four destructive behaviors exhibited by investors over the last 50 years:

1. **Trying to beat the market:** Dalbar Research recently concluded a 30-year study. The average equity investor returns were 3.66% compared to investment returns at 10.35%. The S&P 500 averaged almost 3 times what the average equity investor received. Quit trying to figure out what the

market is going to do. In reality, we only know what the market has already done!

2. **Trying to time the market – see #1 above:** Yes it would be nice to have a crystal ball and know exactly when to be in or out of the market. It's been estimated that perhaps one in 100 investors will be successful market timers. With odds stacked against you, why try it?

3. **Stop looking for the perfect investment:** People spend a lot of time and energy trying to find the "best" stock, bond or mutual fund. Magazines devote entire issues to the subject. There is no such thing as the best investment. No single investment is right for everyone. The best investment for you depends on your goals, your risk tolerance, your age, your income, your personality……..the list is endless.

4. **Stop looking for Mr. Lynch:** Peter Lynch is regarded as one of the top mutual fund managers of all time. Quick…..name another legendary mutual fund manager who defied the odds. Hard to do because there are so few brilliant managers. It's been estimated that only 1% of fund managers beat the market for extended periods of time.

Emulate Warren Buffett….Don't try to beat or time the market. The perfect investment doesn't exist, and forget finding the next Peter Lynch. When emotions rule, investors lose.