



What are the advantages of using an Adviser to help you manage your money?

Dalbar is a research organisation based out of the United States which seeks to measure how well or otherwise consumers do when investing their money without the services of trusted adviser.

They have been producing this report since 1994 and it has provided some very interesting insights into the value of using a consistent measured approach which ensures there is no emotion in the investing decision making. Importantly their research includes market periods such as the 1987 stockmarket crash, the GFC in 2008 and the downturn at the end of the 20th century, so we feel that there is enough data there to provide an excellent guide as to how investors behave.

The latest report that we have access to ends the period December 31 2017 and is compelling when considering how poorly investors fare over the longer term when they are doing it themselves. For example, over the last 20 years, the return the average US equity fund investor has received is 5.29%, whilst the corresponding benchmark performance of the S&P 500 has been 7.2%. Almost a 2% differential. Over the last 10 years which includes the GFC – the average equity fund investors return is only 4.88%, whilst the S&P500 produced a return of 8.5%.

This is significant in our minds and speaks to the fact that the "typical investor" is not very good at managing their own money. I'm keen to explore why that is the case and in our view it is due to the psychology of investing and not investor skill.

Investor Psychology

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

There are 9 distinct behaviours that tend to plague investors based on their personal experiences and unique personalities.

Loss Aversion – This is peoples tendency to prefer avoiding losses to acquiring the equivalent gains. I.e. It is better not to lose \$10,000, than it is to gain \$10,000.

Narrow Framing – This is peoples tendency to make investment decisions without considering all the implications that the investment has on their overall portfolio.

Mental Accounting – Taking undue risk in one area and avoiding rational risk in another



Anchoring – Relating to your own familiar experiences and finding evidence that backs your experience even when it's not appropriate

Optimism – Belief that good things happen to me and bad things happen to others

Media Responses – Tendency to react to news without reasonable examination

Herding – Copying the behaviour of others even in the face of unfavourable outcomes. This could be as simple as using a margin loan to put money into equities because everyone else is.

Irrational Investor Behavior is triggered by some sort of stimulus. A geo-political event, previous good or bad experiences with the market, a hot tip from a colleague – all of which can distract an investor from their own long term goals.

However, it's not just poor or irrational behaviour which impacts market performance. It is also "unplanned events". For example, if an investor needs their money as a result of an event in their life – for example, they want to give their children \$100,000 to purchase a house and subsequently withdraws this money from the "market" as a result of poor planning this has meant that they no longer have a portion of their money invested. We would argue that at all times, you are best to ensure you have these events planned – this is part of the reason we go through such a deep discovery process with all clients, so that we can plan all the items that a client wants to spend money on.

In summary, it's vitally important to be aware of all the biases that you have as an investor. Often, this is not considered and as you can see for the average investor in the US over the last 10 years, it has cost them half of the return they would have achieved had they not been overcome by their behavioural biases. As such, our view is that you should ensure that you are using a professional that is aware of these biases and will help you do the right thing for you on an ongoing basis even when you don't want to.