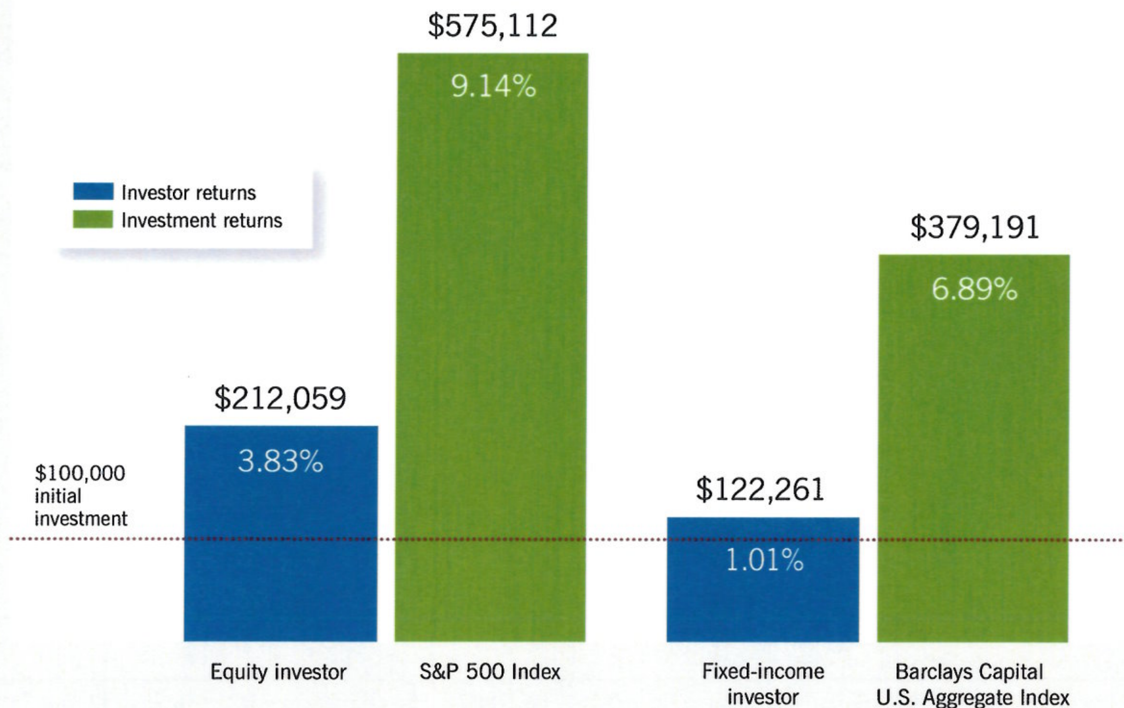
The result: A "behavior gap" between investor and investment returns

The return for the "average equity fund investor" has lagged the market



Source: DALBAR (average equity and fixed-income investors data). DALBAR uses data from the Investment Company Institute, Standard & Poor's and Barclays Capital index products to compare mutual fund investor behavior with an appropriate set of benchmarks. These behaviors are then used to simulate the "average investor." Hypothetical investments for the equity and fixed-income investors are based on average annual total returns. Barclays Capital U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. The indexes are unmanaged and, therefore, have no expenses.

- For many investors, maintaining a consistent investment plan can prove difficult. DALBAR, a research firm, provides evidence every year of the gap between investor returns and investment returns in its Quantitative Analysis of Investor Behavior.
- The latest study shows that from 1991 through 2010, the "average equity fund investor" realized an average annual total return of 3.8%, while Standard & Poor's 500 Composite Index provided an average annual total return of 9.1%. A $100,000 hypothetical investment in the index would have grown to about $575,000 during that time, while this same investment would have grown to about $212,000 for the investor.
- The goal is to close the gap between investor and investment returns. The difference in returns is largely attributable to investors getting in when times are good — essentially buying high and selling low. Some have dubbed this the "behavior gap," and it seems clear that investors need a consistent approach that can help them overcome the tendency to respond emotionally to market volatility and to stay on track with long-term goals.

"The volatility in markets obviously scares investors. The biggest risk is that volatility causes investors to get out of the market. A point-to-point return doesn't matter if the investor isn't there at the end point."

— Rob Lovelace, *portfolio counselor*