Remembering Investment Returns vs. Investor Returns

By: Mark A. Manetti, CFP®

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Do you happen to remember the top headlines from this time last year? Chances are that you may not recall, and it happens to all of us from time to time. Our memory can sometimes fail us and occasionally lead us to make decisions that we otherwise would not make. Our ability to "forget" can also help us to heal and move on with life.

If we could remember the past and predict the future, we could make certain decisions that would lead to extraordinary investment returns (in addition to other more noble causes). Knowing that we cannot predict the future, nor can anyone with any regularity and certainty, we are left with our memory. In thinking about investing, we recall phrases like "new normal" and "new paradigm." The former was used near the bottom of the last market downturn in 2008 implying that capitalism has failed. The latter was used in the late '90s when technology was capitalism's euphoric savior.

In a study by Dalbar, Inc., they evaluated the "average investor return" by measuring the aggregate investments, redemptions, and exchanges among different asset classes. Strikingly, their results showed that the average investor's return over the last twenty years (1995-2014) was a mere 2.5%, just slightly more than inflation over the same time period of 2.4%. Even more striking was that this was the lowest return of any category, being outpaced by U.S. stocks, foreign stocks, oil, gold, and real estate; their respective returns were between double and nearly five times that of the average investor as shown in Graph 1.

While the percentage returns are quite dramatic, the difference in dollars is even more startling. The average investor's $10,000 investment grew to $16,386 while the S&P 500 total return was $66,062. This begs the question: ***Why is there such a dramatic difference?*** See Graph 2.

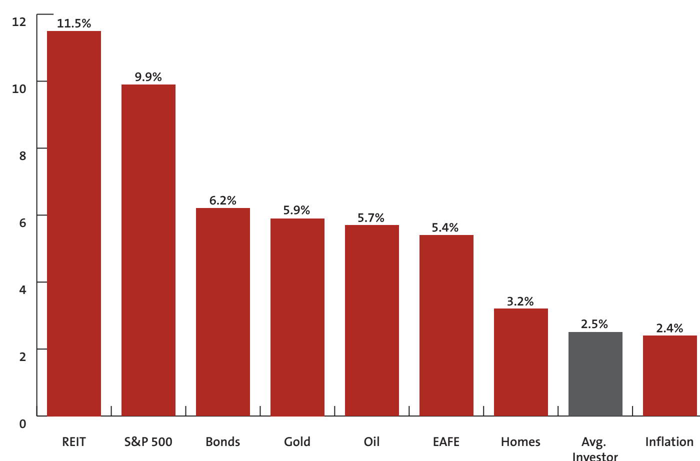
The difference in dollar values is attributable to the difference in compound returns. Simply stated...a modest difference in return compounded over many years results in a large difference in value.

It is our ability to forget that enables history to repeat itself. It is with this in mind that we reiterate our philosophy of broad diversification and investing with professional money managers. As the various segments of the global economy will continue to rise and fall as they always have, a policy of broad diversification can help you achieve enhanced returns and reduce the volatility of your portfolio. It is worth noting that sometimes volatility occurs on both the upside and downside.

Whether it is technology, financials, biotech, industrials, real estate, or any other sector, our use of active professional money managers helps to navigate the investment markets, look past short-term trends, and focus on helping you to realize your goals and achieve peace of mind.

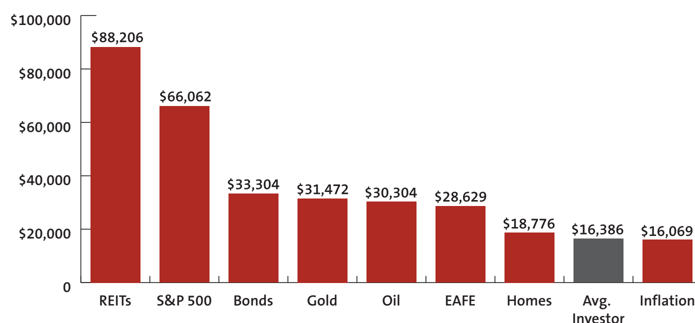
The next time you see an investment that (has already) had a remarkable return, we encourage you to try to remember the "average investor return."

Graph 1: 20-Year Annualized Returns by Asset Class (1995-2014)



Source: Morningstar Direct, Dalbar Inc., J.P. Morgan Asset Management.
Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/14 to match Dalbar's most recent analysis.
Guide to the Markets—U.S. Data are as of July 31, 2015.

Graph 2: Growth of $10,000 over 20 years (1995-2014)



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