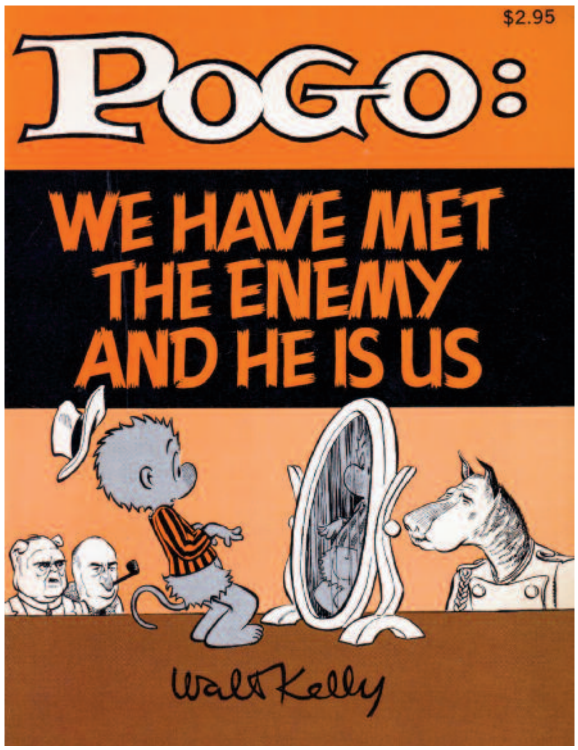
THE TYLER GROUP
Financial Services

Sound Advice

What can you learn from the Dalbar survey?

By Rod Tyler, CFP, R. F. P. , CLU

Have you ever watched a television newscast or read a newspaper headline about something really disturbing or sad? Of course you have, and probably innumerable times in an average lifetime. Do you notice a tendency for any such report to often blame somebody or something as a reason for this sad event? With that introduction, I will now report to you that I too have a gloomy report – a sad tale to tell. Here it is.



The average investor is really a poor investor.

Now before I proceed any further, if you are reading this article, you are probably a client of

The Tyler Group and that perhaps places you in another category of investing success. More on that later, but now to return to this month's message.

Every year from 1984 to 2015, the well-recognized investment research firm, **Dalbar**, published a survey that details how well, or more accurately how poorly, the average investor fared in his or her investment returns. You can see below the summary graph that last appeared in 2015. After 30 years, **Dalbar** chose to quit publishing this survey. Why? It surely brought them considerable financial industry attention and likely, a good deal of research business. The answer is that after 30 years of publishing this chart, they chose to quit because it seemed that the disheartening results never changed. The average investor simply continued to make all the same mistakes that assured they would fall short of any real investing success.

Over the coming months and years, I am going to share with you some of the many reasons the average person is poorly equipped to manage a lifetime of investment decisions. These future articles will explore why people think and act in a certain way and how this affects investment returns. You may have already read previous issues of *Sound Advice* articles, such as "Wearing Red in a Sea of Green", and "Captain Kirk and Mr. Spock". If not, please consider reading these past articles posted on our website. My goal is to help you become and to remain successful in your investment lifetime. That is **The Tyler Group** way.

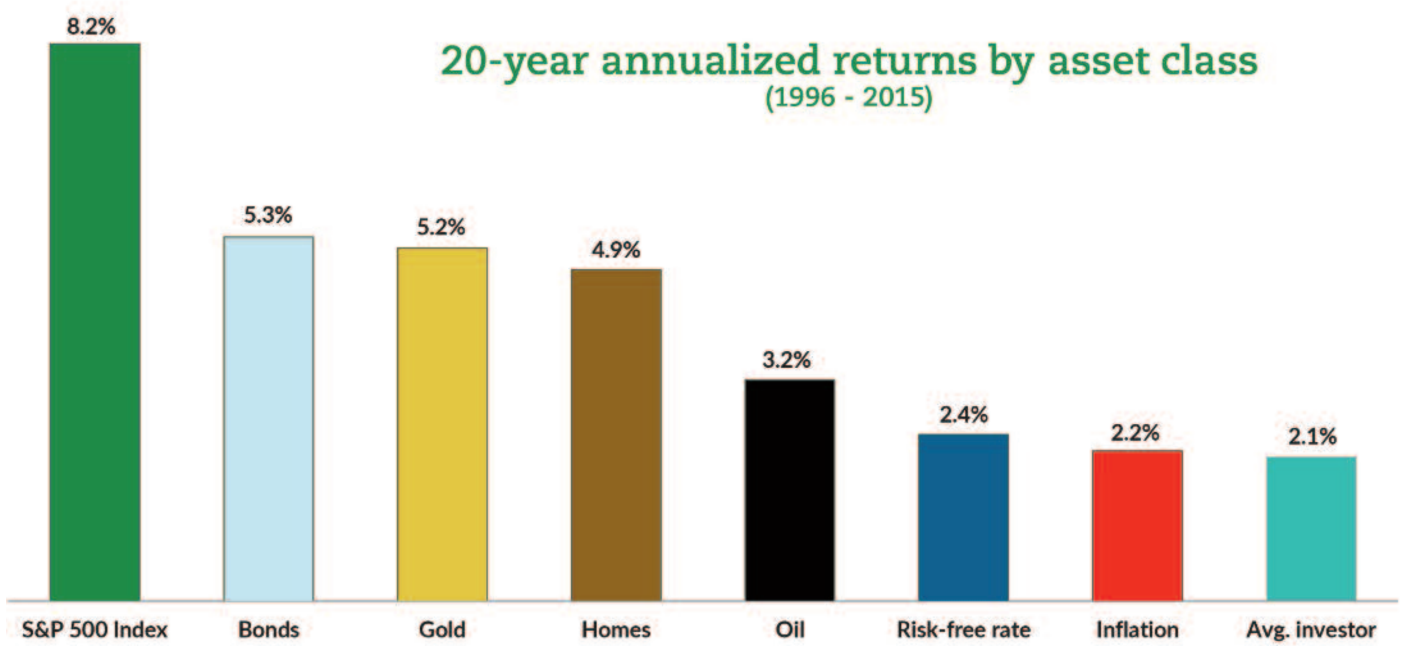
As your advisors, we will remain consistent in our advice. We will continue to champion the use of managed investment accounts for you our clients and for anyone who is serious about investing money. We will do so because we know it works and therefore it will work well for you.

If you look at the graph below, you will observe a series of possible investment choices and the 20-year result of owning them. Many of these are well known to you, such as investing in oil, gold or your own home. Other choices of investment may not be so well known, such as the risk-free rate. This refers to investing in 3 month U.S. Government Treasury bonds. The S&P 500 Index is an average of owning the 500 largest U.S. companies. It may come as some surprise to you that in this comparison, owning that same investment of 500 companies was the most rewarding investment over the last 20 year period. This is a compelling choice that we will revisit at some future time. For now, let's take a look at our average investor. After 20 years, he or she averaged only 2.1% on their investments. The only comment we can offer is that this is indeed a very poor return.

Now to an earlier reference I made to **The Tyler Group** client. **You are not the average Canadian investor.** You are not because of two primary differences:

1. **Most Canadians do not have a trusted investment advisor.** Most Canadians rely on their bank, credit union or some other financial entity for most of the savings they have invested. Often, many Canadians continue to believe that they are better off doing it themselves.
2. **Most Canadian investors do not have the strong guidance offered by an experienced, accredited financial planner, nor do they have the advantage of a well prepared financial plan**. Instead, their decisions are assembled on a series of poor choices that are made when they are least able to focus on what would be best for them and their families for an extended lifetime of investing success. Further, they too, are subjected to all the vagaries of the media and headlines mentioned at the beginning of this

HOW THE AVERAGE INVESTOR STACKS UP



Source: "Quantitative Analysis of Investor Behavior, 2016," Dalbar, Inc. Bloomberg LP. Bonds: Barclays Capital U.S. Aggregate Bond Index; Gold: Bloomberg Gold Spot Price per Troy Ounce; Homes: S&P/Case Shiller U.S. Home Price Index; Oil: Bloomberg WTI Cushing Crude; Inflation: U.S. Consumer Price Index. Risk-free rate: represented by the returns on a three-month U.S. Treasury bill. Average investor returns: average asset allocation investor returns represented by the change in total mutual fund assets excluding sales, redemptions and exchanges. FactSet Research Systems Inc. All returns annualized and in US$. S&P 500 Index return is a total return.

article. Therefore, any decisions made in this way always fall painfully short of the result of a well thought out plan based on sound decision-making.

So, for what other reasons could the average person fall short of investment success? Let me explore one of the most commonly cited reasons – fees. This is the favourite villain cited by media commentators.

If that were true, then you could add one or two percentage points to the results cited in the graph above. That should represent the ongoing cost of both an advisor and the average mutual fund. Using that adjustment, the average investor's return would rise to either 3.1% or 4.1%. Would that be enough to produce satisfactory results? I think not. "But wait a minute", you might say. "What if I just pick one of the highest performing funds myself? Better yet, what if I choose a low-cost fund or ETF (Exchange Traded Fund) and skip the price of the advisor's advice?"

Unfortunately for the average investor, that won't be of much help. For a graphic example of just how it works, look at the graph below. You can see the results of exactly that behaviour in two of the most successful American mutual funds. The average investor actually lost money or underperformed the results of the fund itself. Why? The average investor is emotionally unstable, buying high and selling low, and losing money in what would otherwise have been a good investment. That is what happens without the calming effect of professional advice. **Therefore, the problem is not the fees, it's the average investor behaviour.**

At the beginning of this article I cited a famous pronouncement of a long-gone, but very influential cartoonist, Walt Kelly. Kelly often used his cartoon character, **Pogo**, to humorously poke fun at common social problems. In the 1970s he pointed out all the trash that was littering public space and declared that we, the people, were the enemy of unspoiled nature. How fitting, and in today's world, almost 50 years later, we can celebrate the social victory of recycling, using Blue Bins, and a generally improved outcome for the environment. Who

THEIR OWN WORST ENEMY

Fidelity Magellan Fund Peter Lynch	1977 to 1990
Fund return (annualized)	29%
Average investor return	Lost money!

Fairholme Fund Bruce Berkowitz	5-years (2008 to 2013)	10-years (2003 to 2013)
Fund return (annualized)	16.76%	11.01%
Average investor return (annualized)	11.83%	5.34%
Behavioural difference (annualized)	-4.93%	-5.67%

Source for Table 1: Fidelity Investments, Matt Driscoll, "Discipline: A key to success in business and investing". Tuve Investments, Inc., 2008.
Source for Table 2: http://awealthofcommonsense.com/behavior-investment-strategy/. In US$.
The Fidelity Magellan Fund is a US-domiciled mutual fund from the Fidelity family of funds. The Fairholme Fund seeks long-term growth of capital and is managed by Bruce Berkowitz. In US$

Remember, you are not just average investors. You are winners.

in today's world would want someone to see them throwing garbage on the street or in a park? Answer: Nobody, unless they had a need of negative attention. The "no littering" and recycling campaigns have reprogrammed the public consciousness. That's a good thing. But when it comes to changing the average investor behaviour, no similar success has been achieved.

On behalf of the folks at **The Tyler Group**, here are our compliments to our clients.

You are the success stories. You have followed the path of improving your personal investment returns by seeking the counsel, advice and coaching of professional advisors. In addition, you have continued to own and add to your investment portfolio, even when the urge to behave in other ways might tempt you to become one of those "average investors" on the Dalbar survey.

How do we know? We have retained your investment history with Peak Investments and **The Tyler Group**. We have access to the numbers as you do. You can access your account at Peak On Line to check your progress. Also, we can provide you with enhanced reporting that will provide you more detailed results of your well-planned investment strategy.

Of course, we know that from time to time you may question our advice and want to either "play it safe" or "risk a little money". To counteract your human impulses, we continually advise you to talk it out with us, to revisit your overall financial plan, and then, and only then, decide if you want to take any action.

Starting with the next issue of ***Sound Advice***, I will present to you a series of articles describing the most common emotional mistakes, and how you may avoid or minimize them. Until then, please celebrate your own individual investment success.

THE TYLER GROUP Financial Services
2330 McIntyre Street, Regina, SK S4P 2S2

Phone: (306) 525.5250 **Toll Free:** 1 (877) 225.5250
Fax: (306) 585.6117 **Toll Free Fax:** 1 (877) 255.0122

Email: info@thetylergroup.ca **www.thetylergroup.ca**

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