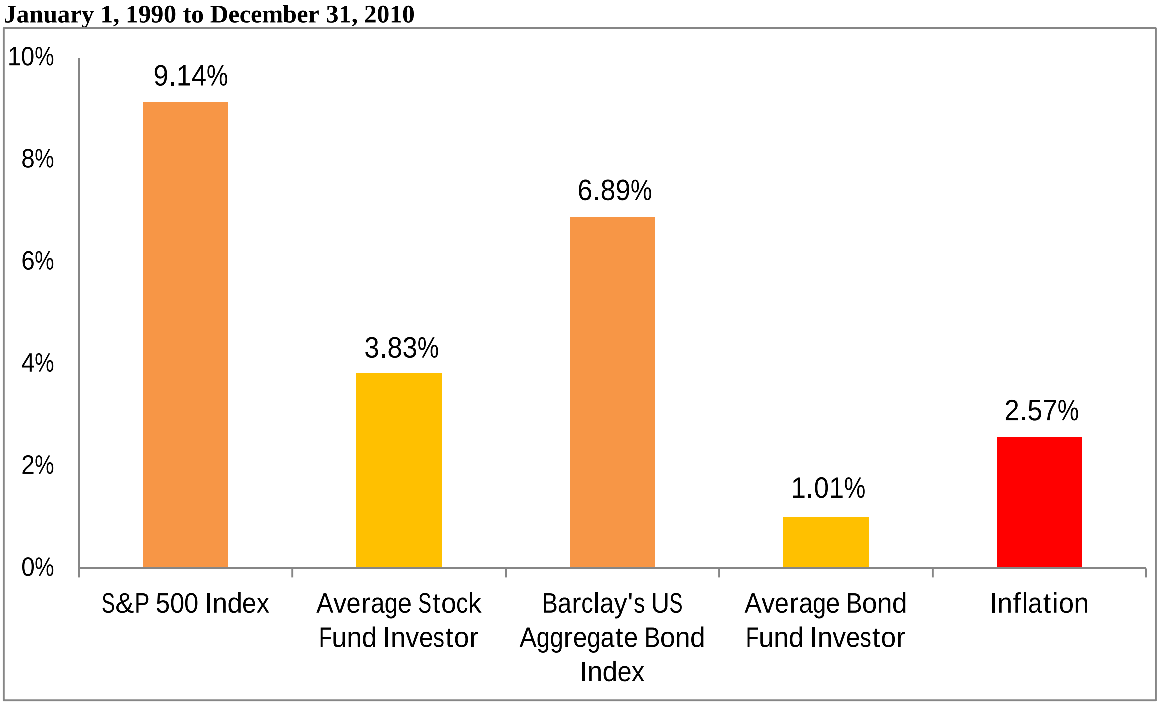
Investor Emotions and Fund Fees Can Ruin Returns

Investors' natural instincts are their worst enemy when it comes to investing. Invariably, investors let their emotions dictate their actions. They feel more confident when the market is high, and then lose their nerve and sell when the market is low. The impact of this market timing behaviour is illustrated in a study conducted by Dalbar, a leading financial services market research firm that investigates how much mutual fund investors' actually earned on their money. The figure below shows data from a Dalbar study covering the 20 year period ending in 2010:

- After fees the average stock fund investor earned only **3.83** percent annually versus **9.14** percent from the S&P 500 Index
- After fees the average bond fund investor earned only **1.01** percent annually versus the Barclays U.S. Aggregate Bond Index return of **6.89** percent
- What is most unfortunate is that **the average stock fund investor barely beat inflation, and the average bond fund investor lost money after accounting for inflation.** If income taxes were factored in, the results would look even worse.

Average Investors vs. Markets

January 1, 1990 to December 31, 2010



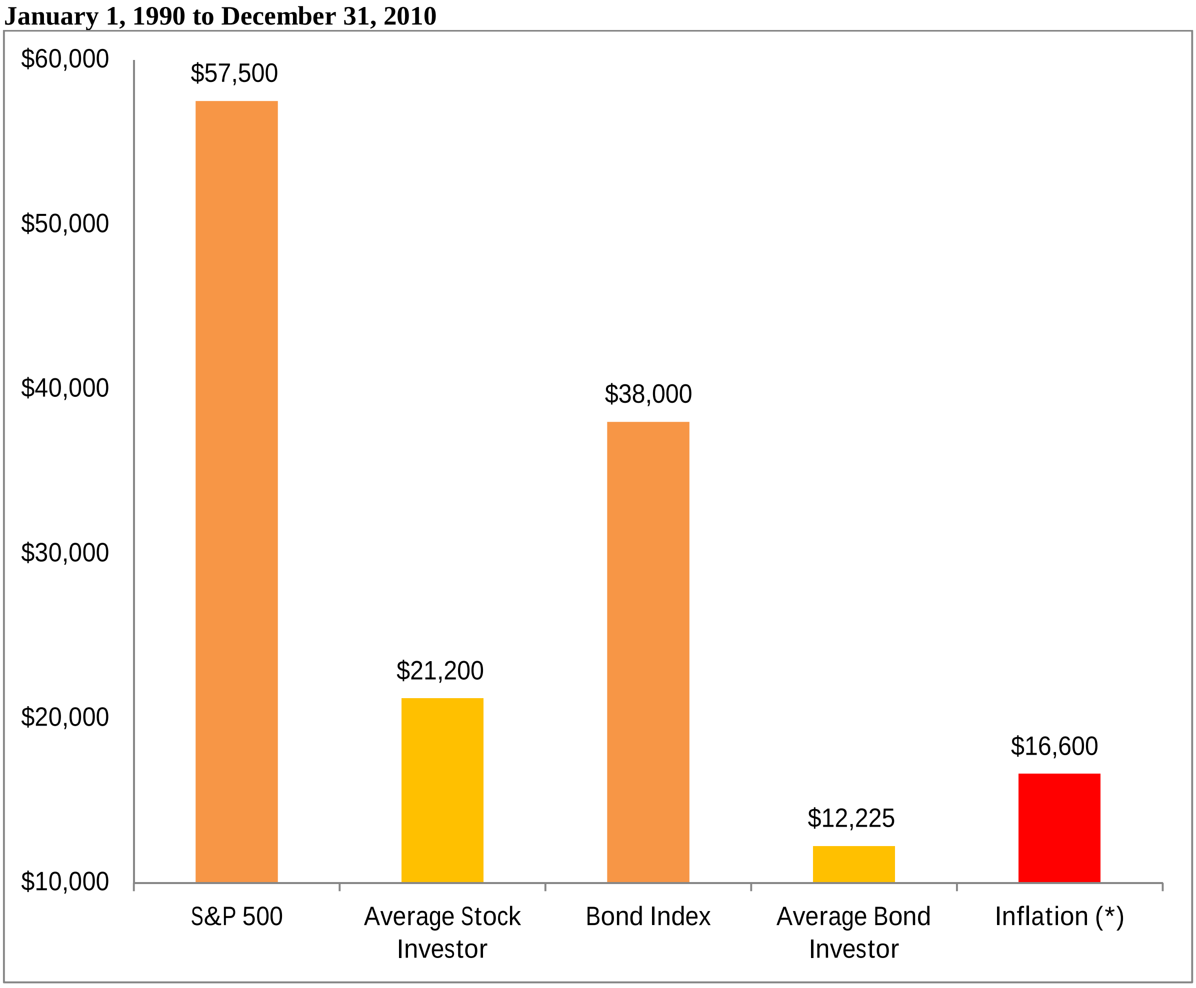
Source: "Quantitative Analysis of Investor Behaviour, 2011" DALBAR, Inc.

(See over for calculation of absolute dollar returns)

Average Investor Returns vs. Markets

January 1, 1990 – December 31, 2010

$10,000 Investment



(*) Growth required in $10,000 to maintain purchasing power