The Cost of Investor Behavior

Investors often respond emotionally to the market. And whether that emotion is fear of loss or fear of missing out, it is powerful.

We are inclined to sell something that goes down and buy whatever is doing well. This has been going on for decades and continues to this day. It's just about as reliable as the sun rising and setting.

There are studies that show investors who follow what is "hot" achieve a much lower return than an investor who sticks to a disciplined strategy. *Despite that knowledge and proof, investors still chase performance, even to this day.*

Historical Examples

- Fidelity Magellan fund in 1980's had an average annual return of 29%. Yet, according to Peter Lynch, the average Magellan investor achieved a return of just 7% per year.

- The CGM Focus fund was the top performing mutual fund from 2000-2009 (an entire decade) – up more than 18% annually. However, the average CGM investor *lost* approximately 11% per year during that time period.

How does that happen? Because many investors chase returns. They buy in after great performance and then sell during periods of poor performance.

2020 Example

- ARK Innovation, a concentrated ETF in biotech and technology, is up roughly 160% this year. Yet, its managed assets are up nearly 900% for the year. How does that happen? Because investors are chasing the return!

Often our emotions overrule logic when investing. Even when we have facts, the fear of loss / fear of missing out has the potential to overpower rational thought. It may feel good at the time and can even appear to be the right decision for a season.

But that's it – only for a season. And no one knows when that season will end. But what we do know is that such a "strategy" does not persist. Patience and discipline to your plan persist in the long run, and that is why I am always encouraging you to ignore the noise and stay the course.