Chart: Investor Behavior and Investment Returns

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Explanation: Negative Effects of Investor Behavior

More often than not, investors ask themselves or their financial advisor if they are "beating the market." Unfortunately, too often investors and advisors are actually "beating up themselves" by chasing returns. Behavioral economics notes that the typical investor goes through emotional stages ranging from cautious to euphoric. Unfortunately, these emotions lead investors to buy at market peaks (when they are "euphoric" about the market) and sell at market lows— in other words, investors "buy high and sell low" rather than buying low and selling high. As the chart below demonstrates, these mistakes have huge consequences for the average investor, leading them to not only not "beat the market" but barely keep up with inflation. Thus, an underappreciated but crucial aspect of a good financial advisor is that they keep a steady hand on emotions and design a systematic rebalancing schedule that permits the client and advisor team to methodically "sell high and buy low," limiting the adverse effects of overly emotional investing.

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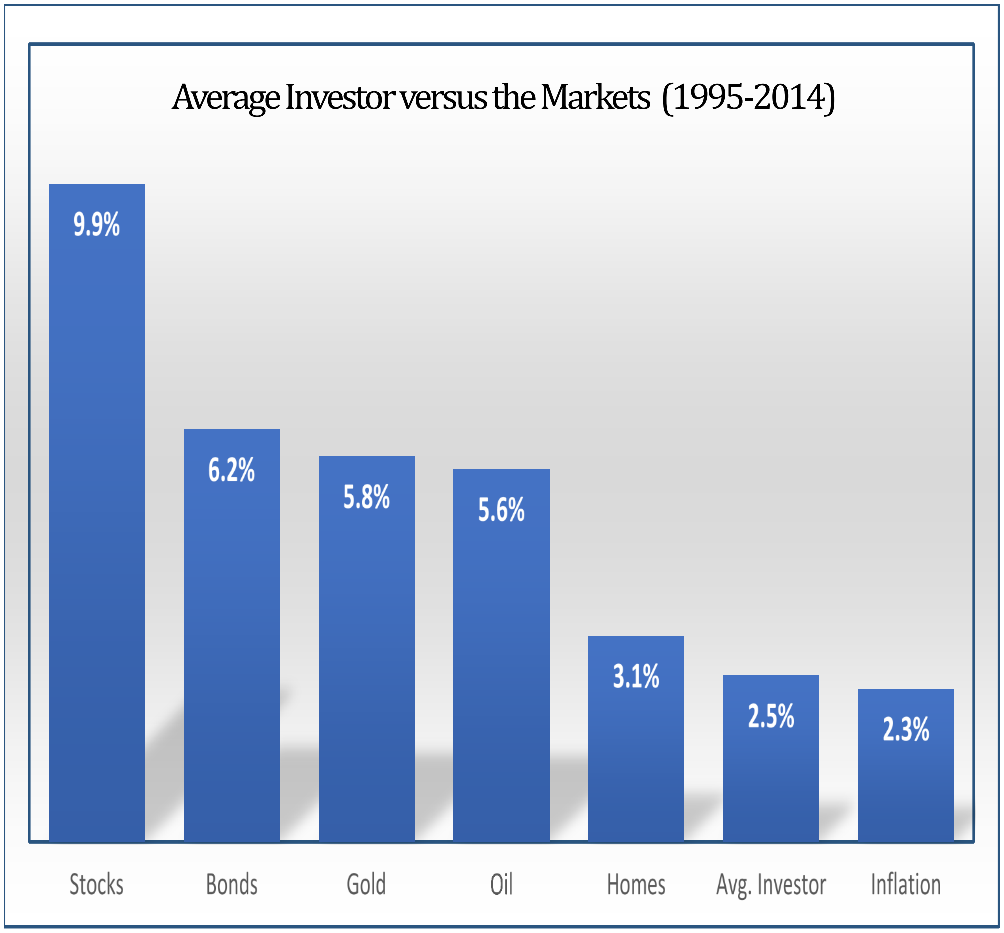

Average annualized returns

Sources: Blackrock and Bloomberg

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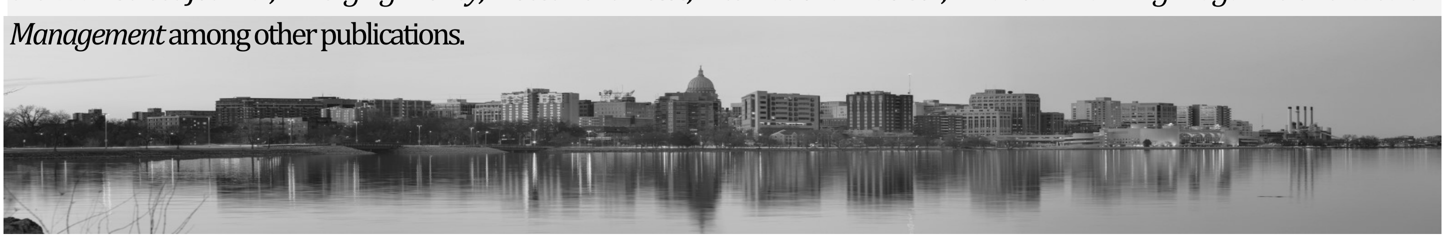

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