Can We Be Successful Investors Just By Avoiding Costly Emotional Errors?

Saturday's With Jim

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Dear Friends,

Why do people hire investment advisors? Many use advisors to invest wisely for them with the edge coming from professional training and experience that holds them to a well thought strategy through market ups and downs. It is precisely those ups and downs which activate emotional impulse – usually to take action that may offer short-term gratification but often results in long-term loss. Almost anyone with some attention and reasoning ability can choose solid investments, but many will fail at the first sign of trouble – selling out in despair. Indeed, we have mentioned DALBAR's research results in these pages before, noting that individual investors tend to buy funds higher than they sell them. Advisors with years of training can surmount their emotional impulses to be greedy when fear is called for and to be fearful when greed is called for (paraphrasing Warren Buffet). Are advisors always better investors than individuals?

An Advisor-Individual Investor Comparison

In his June 9, 2017 Intelligent Investor column, "Don't Touch My Money, Just Hold My Hand," Jason Zweig of WSJ's *Moneybeat,* points to investor performance in two Fidelity biotech mutual funds – identical portfolios, with one for individual investors and the other for advisors. The fund for individuals gained 14% a year over the past 10 years while the average investor holding it gained only 10.4%, ostensibly due to buying and selling at inopportune times. Those holding without buying or selling got the 14% return.

The biotech fund for advisors got a 13.6% buy and hold return but its "investor return" was only 0.7% - a far cry from the 10% return individuals got who were unaided by advisors. Does the biotech comparison show that advisors are worthless? Probably not, but it does show that trading a very volatile set of securities like biotechs (many of which have promise, but no earnings) is a hugely difficult task, best left to professional traders - which most advisors are not. This said, comparing Fidelity's other retail investor and advisor clone funds showed better advisor performance, just as we would expect. The advisor funds had lower turnover – more advisors pick the fund, buy it and hold it rather than trade in and out of it.

So what?

The non-biotech Fidelity advisor experience tends to support our contention that advisors' emotions and passions are better circumscribed by discipline than those of retail (individual) investors, taken as a group. There is a huge amount of information available to everyone, but it appears that advisors are capable of digesting this information better than the average retail investor. Perhaps experience and training really does create an edge. Perhaps advisors can really eschew the need for emotional comfort as markets bounce up and down. Perhaps they, as a group, really can set a course for long-term achievement, realizing that at times they will be out of step with the voices and the pundits. If investing were easy, there would be little reward.

We are grateful that you chose us to facilitate your financial journey. Thank you for investing with us.