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Better Investment Recommendations equals Greater Returns?
DALBAR Annual Report of Investor Returns Says Not So

(Boston, MA. April 26, 2016) The argument has been made that regulating the practice of acting in an investor's best interest will equate to greater returns as investors' will receive better investment recommendations. Although this presumption has never been actually tested, the deep belief is that conflicts of interest are the root cause of diminished returns.

DALBAR has been analyzing investor returns for over 20 years and indeed found greatly diminished returns - with the root causes being a much more complex set of factors. For the 30 years ended December 31, 2015, the S&P 500 index produced an annual return of 10.35%, while the average equity mutual fund investor earned only 3.66%. The gap of 6.69 percentage points represents the diminished returns. Recovering a portion of this shortfall would mean hundreds of billions of dollars earned by investors.

However, as it turns out, the leading cause of the diminished return is the investors' own behavior. No evidence was found that predictably poor investment recommendations were a material factor. Further analysis of underperformance shows the following are the primary causes:

Major Causes of Equity Investor Underperformance (20 year analysis)		
Cause	**% Contributed to Underperformance**	**Underperformance ($Billions)**
Lack of Availability of Cash to Invest[1]	0.54	44
Need for Cash (planned and unplanned)[2]	0.68	55
Fund expenses (including management fees)	0.79	65
Voluntary investor behavior underperformance[3]	1.50	122
Total	**3.52**	**286**

The full report of the recently released 22nd Edition of DALBAR's *Quantitative Analysis of Investor Behavior* (QAIB) is available for purchase from DALBAR by visiting the QAIB Store at www.QAIB.com, calling 617-723-6400 or emailing QAIB@dalbar.com.

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[1] Lack of availability of cash represents the investor return that is lost by delaying the investment.
[2] Need for cash represents the percentage of investor return that is lost or gained by withdrawing the investment before the end of the period being measured.
[3] Voluntary investor behavior generally represents panic selling, excessively exuberant buying and attempts at market timing.