Rodger on Retirement

How two families view investment advice

This is the story of the two families who live in a suburban middle class neighborhood. The defining difference in their financial situations has 100% to do with their behavior, and very little to do with differences in what they invested in. You see, each of the family's works with the same financial advisor and their investment portfolios were remarkably similar. This was due to the fact that their goals, risk tolerance, investment time horizons, investment experience and other metrics were very nearly identical to each other. Interestingly enough, each took a different path to working with the same advisor.

We followed these families to determine why a large difference in their financial fortunes appeared after 20 years. The Wentworth's and the Gilbert's, as we will call them, rarely speak to each other and are unaware they share the same advisor.

John Wentworth prides himself on being coachable, and paying for expertise that he does not possess. Once he understands the strategy and the reasoning behind it, he will maintain the strategy until a change is clearly warranted, and recommended by his advisor. His reasoning is that he is paying for the knowledge, experience and expertise that his advisor has developed over decades of practice.

David Gilbert views the world of investments quite differently. He listens to his advisors recommendations, and also maintains subscriptions to 5 investment newsletters and 4 financial magazines. When his advisor created a plan to help grow their wealth, he viewed the plan through the lens of his newsletters and articles written by financial journalists. Needless to say, he did not maintain his plan, and in fact, made frequent changes to it based upon recommendations contained in the magazines and newsletters. Whether the markets hit new highs, or fell steeply due to world news, he felt compelled to react and always take some type of action.

As you may suspect, the differences in their returns was substantial. I will draw a parallel to Dalbar, who published a study in March of 2015 titled *"Quantitative Analysis of Investment Behavior"* They examined the period 1995 to 2014 and found that the average stock mutual fund returned 9.1% for the period and the average stock mutual fund *investor* returned 5.2%. At this point you may wonder how an investor underperformed their own investment. Before you run off and draw your own conclusions, the answer dear reader, is that they exhibited inappropriate behavior. Space does not allow me to delve further into the fascinating area of behavioral finance. Suffice to say, you may wish to discuss the ideas presented here with you advisor.

Dalbar computed the "average stock fund investor return" by using industry cash flow reports from the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions, and exchanges. The "average stock fund return" figure represents the average return for all funds listed in Lipper's U.S. Diversified Equity fund classification model. Returns assume reinvestment of dividends and capital gains distributions. Past performance is not a guarantee of future results.