ADDRESSING RETIREMENT RISK • INVESTOR BEHAVIOR

Investing in the market is an emotional experience. Studies show the average investor tends to buy into the market at its peak, and sell at the bottom. This behavior continues to hold true today, even while statistics show that 91% of investment returns come from sound asset allocation, only 9% of returns are attributed to proper market timing. The fact that individual investors are trying to time the market leads to lower investment returns; these buy high and sell low mindsets can be summarized in one word… *emotion*. Fear, greed, regret, anxiety, and other emotional responses are common motivators for buying in or selling out of the market at the wrong time. These emotional responses cause investors to chase trends, which leads to "buy high and sell low" behaviors. This ideology is sometimes referred to as the "odd lot effect," which refers to average investors buying or selling at the wrong time. The chart below showcases how the "odd lot effect" can affect long term performance. This study, conducted by JP Morgan, illustrates 20 years of investor behavior and the adverse effect on portfolio returns as compared to passive investment in various market strategies.

CASE STUDY: *At age 55, Sally had an accumulated value of $1,000,000 invested in the market. During the 2008 market downturn, Sally watched the S&P 500 fall 37%. Much like other investors, she became terrified that her portfolio would decline further and sold out of the market with an account value of $630,021. Unsure if the market would rebound, she remained un-invested until the start of 2010, missing the 26% return in 2009. Today, her account value is $740,232, whereas if she remained invested and was not emotionally triggered to sell out of her position, her account value would be $936,131. Because of an emotional response to market volatility, Sally now has a portfolio that is 20.93% less than if she would have stuck to the principles of passive investments and remained invested for long term growth instead of being reactionary to short term market conditions.*

20-YEAR ANNUALIZED RETURNS BY ASSET CLASS (1991 - 2010)