FINANCIAL NEWSLETTER

Why Most Investors Fail to Match Average Stock Market Performance

July 2024

OakTree
PREMIUM FINANCE

The OakTree Newsletter: More Income. More Safety. More Confidence

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Hello Christina,

In this month's newsletter, we dive into a critical issue that affects many investors: why most fail to match the average stock market performance. Using a memorable analogy from the movie Cast Away, we explore how inactivity can sometimes outperform the active strategies of average investors. Drawing on insights from Dalbar, Inc.'s Quantitative Analysis of Investor Behavior, we highlight the stark performance gap between average investors and the market, examining the behavioral and emotional factors that lead to this disparity. We'll also discuss how maintaining a disciplined, long-term investment approach, potentially aided by strategies like Kai-Zen, can help investors stay on track to achieve their financial goals. Join us as we uncover the keys to better investment outcomes and long-term wealth accumulation.

Why Most Investors Fail to Match Average Stock Market Performance

Remember the movie **Cast Away**, a survival drama starring Tom Hanks as Chuck Noland, who is stranded on a deserted island after a plane crash. (I've told this story hundreds of times since it came out in 2000.) Alone for four years, Chuck learns to survive with limited resources, finding solace in a volleyball he names Wilson. Finally rescued, he returns home to find life has moved on without him. Now, consider this: whose investment portfolios performed better during those four years—Tom Hanks' character, who did nothing, or his buddies back home? According to the Dalbar study, Chuck would have likely achieved around 10% returns by doing nothing, while his friends might have managed only 3.6%.

Investing in the Stock Market

Investing in the stock market is widely recognized as a powerful way to build wealth over time. However, Dalbar, Inc.'s Quantitative Analysis of Investor Behavior (QAIB) consistently shows that the average investor fails to achieve returns that match or exceed market benchmarks.

Dalbar's Quantitative Analysis of Investor Behavior

The Dalbar QAIB report provides a comprehensive look at the disparity between investor returns and market returns. The 2023 QAIB report found that over a 30-year period, the average equity fund investor earned an annualized return of just 3.6%, while the S&P 500 returned 10.0% annually. This represents a staggering 6.4% annual performance gap, which translates to a significant shortfall in accumulated wealth over time.

Causes of Underperformance

Dalbar identifies several key factors contributing to this underperformance:

1. Poor Market Timing: Investors often make decisions based on market movements, selling during downturns and buying during peaks. This reactive behavior results in buying high and selling low, significantly reducing overall returns.
2. Emotional Decision-Making: Emotional reactions to market volatility, driven by fear during market declines and greed during market rallies, lead to irrational investment choices. This behavior disrupts long-term investment strategies and results in suboptimal performance.
3. Lack of Discipline: Maintaining a disciplined investment strategy is challenging for many investors. Deviations from a well-thought-out plan, often in response to short-term market fluctuations, contribute to lower returns.
4. Market Noise: Constant exposure to financial news and market predictions can lead investors to make frequent changes to their portfolios. This "noise" distracts from long-term goals and encourages counterproductive trading activity.

Comparative Analysis

The Dalbar study starkly illustrates the difference between average investor returns and market performance:

- Over 30 Years: Average investor return: 3.6% vs. S&P 500: 10.0% (6.4% gap)

To put this in perspective, an investment of $10,000 growing at 10% annually would be worth approximately $174,494 after 30 years. In contrast, the same investment growing at 3.6% annually would only be worth about $29,778. This enormous difference highlights the impact of underperformance on long-term wealth accumulation.

Conclusion

The Dalbar QAIB report consistently highlights a significant issue: most investors do not achieve average market returns. Behavioral biases, emotional decision-making, poor market timing, and a lack of discipline are primary factors contributing to this underperformance.

Adhering to a well-defined investment plan and resisting the urge to react to short-term market movements is very challenging for anyone to do, investors and investment advisors alike. My 35 years as an investment advisor taught and showed me that. Perhaps considering approaches that reduce the need for reactive decision-making, like Kai-Zen, in addition to a bunch of other benefits, could help investors stay focused on their long-term goals and, most importantly, achieve those goals.

-Jim Barlow, MS, CFP

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What is Kai-Zen

Kai-Zen is a strategy that helps you maintain your current lifestyle in the event of a chronic illness, premature death, or an inability to sufficiently save for retirement. Protecting your earnings is critical to insuring your ability to save for retirement. Due to limitations, traditional retirement plans are typically insufficient for high-income earners. If you want to maintain your lifestyle in retirement, you need a proactive strategy that puts more money toward protecting your future income without putting a drain on your current finances.

Kai-Zen is the ONLY strategy that uses leverage to help you acquire more of the benefits you need to financially protect you and your family. Its unique fusion of financing and life insurance offers you more protections and the potential to earn more for retirement than you could obtain without leverage.

THE Kai-Zen® STRATEGY
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Quotes Jim sent his family this past month:

“Negative energy is wasted energy. You want to become a master at overcoming hard moments. That is, to me, the sign of a champion, the best in the world and not the best, because they win every point. It’s because they know they’ll lose again and again, and have learned how to deal with it. You accept it, cry it out if you need to, and then force a smile. You move on, be relentless, adapt, and grow. Work harder, work smarter. Remember, work smarter.” Roger Federer --

“A day is like a whole life. You start out doing one thing,

"*Excellence is mundane. Superlative performance is really a confluence of dozens of small skills or activities, each one learned or stumbled upon, which have been carefully drilled into habit and then are fitted together in a synthesized whole. There is nothing extraordinary or superhuman in any one of those actions; only the fact that they are done consistently and correctly, and all together, produce excellence.*
When a swimmer learns a proper flip turn in the freestyle races, she will swim the race a bit faster; then a streamlined push off from the wall, with the arms

but end up doing something else, plan to run an errand, but never get there. . . . And at the end of your life, your whole existence has that same haphazard quality, too. Your whole life has the same shape as a single day." Michael Crichton, Jurassic Park

“About work, you know how they always say nobody ever looks back on their life and wishes they spent more time at the office? Well, why? Why don’t they? Guess what? Depends on the job. If you took a stupid job that you find out you hate and you don’t leave, that’s your fault.
Don’t blame work. Work is wonderful. I definitely will not be looking back on my life wishing I worked less. If that’s not how you feel at work. Quit on your lunch break. Disappear. Make people go. What happened to that guy? I don’t know, he said he was getting something to eat. Never came back. ” Jerry Seinfeld

squeezed together over the head, and a little faster; then how to place the hands in the water so no air is cupped in them; then how to lift them over the water; then how to lift weights to properly build strength, and how to eat the right foods, and to wear the best suits for racing, and on and on.
Each of those tasks seems small in itself, but each allows the athlete to swim a bit faster. And having learned and consistently practiced all of them together, and many more besides, the swimmer may compete in the Olympic Games... the little things really do count." Daniel Chambliss

“We become what we want to be by consistently being what we want to become each day.” Richard G Scott

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Watch me on KSL!

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Kai-Zen
Uncover the Benefits

Detailed Insights into the Wealth Transfer Benefits of Kai-Zen