



Consistency may cure investors' bad habits

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Your success. Our priority.

The evidence is, in fact, that people chase last year's spectacular returns, and yet our own research is that that's a very poor strategy to follow.

So the industry's had this phrase for a long time that past performance is not a good guide to the future. It's actually very true, but yet people don't seem to pay any attention to that.

But if you're trying to build up money to help your children go to college or save for your retirement then in fact, it is the consistency of the return. It is far better to get 6% consistently than plus 10% one year and minus 2% the next year and then plus 4%. That is difficult. Just arithmetically, the compounding effect of a more consistent return is to your advantage but perhaps more importantly, it's behavioral. People who chase those types of higher returns are usually also the first ones to sell when that investment goes through a bad patch when in fact, they really should buy it when it's been through a bad patch. And we see that.

You know, there's a lot of controversy at the moment about the fees paid on active funds or so-called active funds versus so-called passive funds. And that's certainly a very important issue. But our work suggests that that maybe costs clients somewhere in the 60 to 80 basis points per annum, which is not to be ignored over the long term. That's an important number. This behavioral trait of selling out of funds that demonstrate high volatility, in other words, sell low and buy high is actually costing people maybe 200 basis points per annum. So if we could overcome that and get people to invest in strategies that have a more consistent return which would then be consistent with their behavioral trait to stay with something as opposed to panicking, getting it out when it goes through a bad patch, that would have an enormous effect on saving over the long term for, say, retirement. And we really do have to address that. Go for consistency, not for short-term spectacular returns.

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