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2014 DALBAR QAIB Highlights Futility of Investor Education Bad Decisions Persist After Decades of Education and Disclosures

(Boston, MA. April 9, 2014) DALBAR's annual Quantitative Analysis of Investor Behavior ([QAIB](#)) celebrates its twentieth edition of measuring the shortfall in retail investor real returns. Each year, the QAIB report monitors the gap between leading indicators of investment performance and what mutual fund investors actually earn. The report has focused on the fact that in addition to availability and need for cash, the major cause of the shortfall has been withdrawing from investments at low points and buying at market highs.

The 2014 edition of QAIB shows a reversal of the improvement in investor decision making, capping off the painfully slow improvement of the last three decades. The gap in 20 year returns of 10.65 percentage points in 1998 has narrowed to 4.20 in 2013. The current gap is the result of a 20 year return of 9.22% for the S&P 500 compared to the average investor return of 5.02%%

While much of the slow improvement has been through investor experience and education, the improvement appears to have now stalled. "It is now past the time for the investment community and its regulators to understand that the principle of educating uninterested investors about the complexities of investing is unproductive" said Louis S. Harvey, DALBAR's President. He added that "We need a fundamental change that transforms investment thinking into meaningful decisions and choices for retail investors."

Having outlived its usefulness, attempts to educate and disclose to uninterested investors should be replaced with a more thoughtful process that supports investment decision making. QAIB 2014 calls for a four-part approach to relieve the decision making burden that has been put on investors and produce a more prudent courses of action. The suggested approach consists of setting appropriate expectations, controlling

investor exposure to risk, monitoring of risk tolerances and presenting forecasts in terms of probabilities.

The four-part approach is supported by research that proves the variability of risk within each asset class and the volatile risk tolerance of individuals. Investors' unrealistic expectations are addressed by using realistic expectations and probabilities in place of a mindless warning that "past performance does not guarantee future results."

Additional key findings in the 2014 QAIB include longer retention of equity and asset allocation mutual funds but shorter retention among fixed income funds.

The full report of [QAIB 2014](#) is available for purchase from DALBAR, by calling 617-723-6400 or e-mailing QAIB2014@dalbar.com

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