The influence of investor behaviour

Throughout the course of our lives, changing circumstances may prompt us to sell or switch investments. Some, like an unexpected car repair, are unfortunate realities whereby the long-term impact can be mitigated with a safety net of short-term, liquid assets. Others are associated with irrational investor behaviour triggered by a wide range of sources, such as fear-inducing headlines or a negative market experience.

For nearly 25 years, DALBAR Inc. (DALBAR), a financial services market research firm, has released a Quantitative Analysis of Investor Behavior (QAIB) report, which measures how investors' decisions affected long-term performance in their portfolios. Throughout this time, DALBAR has identified two distinct behaviours that have consistently proven to be detrimental to investment success – moving into and out of investments too frequently and attempting to time the market.

Retention rates

Armed with the power of compounding returns, it is often said that time is one of the biggest assets of the individual investor. Despite long-term goals being at the heart of why individuals invest, data show that the average mutual fund investor has not remained invested for a sufficient period of time to reap the benefits of a long-term plan.

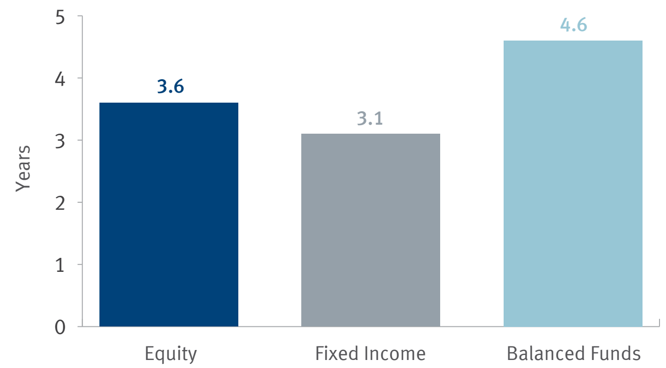
Over the past 20 years, equity mutual fund investors have only managed to stay invested for an average of 3.6 years while the average fixed-income investor has remained invested for just over three years. Clients investing in balanced funds have managed to stay the course for longer periods of time – 4.6 years – although this remains well below the threshold of what constitutes a long-term plan.

Retention rate data show that investors lack the patience to stick with any one investment strategy. This tendency can have negative repercussions as volatility has historically been higher over shorter periods of time. As time goes on, the impact of volatility becomes less noticeable and investors have been rewarded for staying the course.

Market timing

The growth in mutual fund assets over time suggests that investors are not simply redeeming their investments and parking them on the sidelines. Rather, DALBAR's analysis indicates that the majority of redemptions are moving from one investment to another, which can be attributed to the average investor's tactical and market-timing decisions.

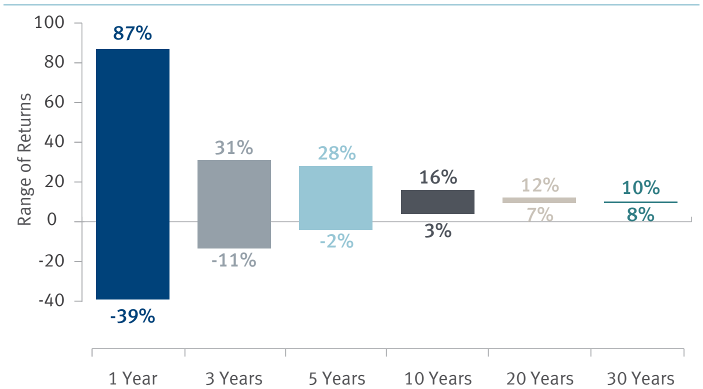
On average, mutual fund retention rates are much lower than long-term investment horizons



Source: "Quantitative Analysis of Investor Behavior, 2018," DALBAR, Inc. www.dalbar.com

Volatility of a diversified portfolio decreases over time

Rolling 1-, 3-, 5-, 10-, 20-, and 30-year average annual returns from January 1980 to December 2017



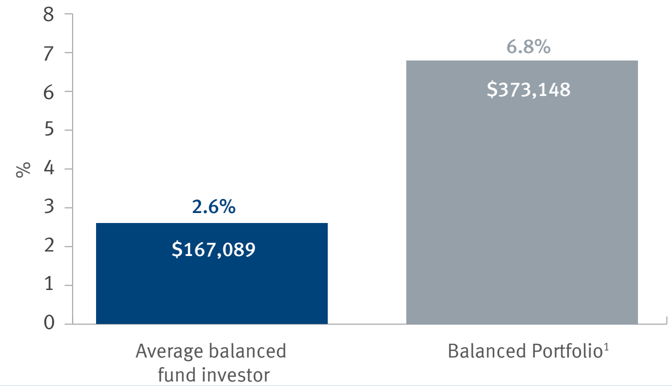
Source: RBC GAM*

There are many instances in which market conditions have caused a shift in cash flows, which run counter to the eventual direction of the market. In order to assess the impact of these occurrences, DALBAR calculated the Guess Right Ratio which involved looking at fund inflows and outflows to examine how often investors correctly anticipated the direction of the market in the following month. Even though 2017 was a calm and consistently upward-trending year for the market, investors still guessed only three out of 12 months correctly.

Cost of investor behaviour

Individual investors have incurred significant costs associated with their short retention rates and inopportune market timing decisions. In the past 20 years, the average balanced-fund investor has experienced an annual rate of return that is 4.2% lower than investors who would have stayed the course in a balanced portfolio. Based on an initial investment of $100,000 on January 1, 1998 excluding fees, this would add up to a difference of over $206,059 at the end of 2017.

There are real costs associated with trying to time the market



Source: Average Balanced Fund Investor "Quantitative Analysis of Investor Behavior, 2018," DALBAR, Inc. www.dalbar.com. [1]Morningstar. RBC GAM: Performance of Balanced Portfolio based on 60% S&P 500 in USD/ 40% Barclays Aggregate Bond Index in USD based on an initial $100,000 investment on January 1, 1998, to December 31, 2017. Please note you cannot invest directly in an index and fees are not included.

Value of advice

It's natural for investors to be anxious during volatile markets, which highlights the importance of having a long-term plan. Working with an objective advisor who can share experiences and provide advice during difficult times is an important component to keeping this plan on track. The value of advice is in the numbers – studies show that clients who work with an advisor accumulate almost four times the assets of investors who don't work with an advisor over a 15-year period. An advisor achieves this by helping clients pinpoint their objectives, risk tolerance and time horizon, making it easier to build a portfolio that is tailored to their needs.

Contact an advisor today for more information on how they can help you reach your financial goals.

*Illustrative only and not predictive of future results. Rolling periods are periods of consecutive months with new periods beginning on the first day of each month. For example, the first one-year period began January 1, 1980, through to December 31, 1980.Diversified Portfolio represented by 2% Cash, 43% Fixed Income, 19% Canadian Equities, 20% U.S. Equities and 16% International Equities. Cash represented by FTSE TMX Canada 30 DAY T-Bill Total Return Index; Fixed Income represented by FTSE TMX Canada Universe Bond Total Return Index; Canadian Equities represented by S&P/TSX Composite Total Return Index; U.S. Equities represented by S&P 500 Total Return Index; International Equities represented by MSCI EAFE Net of Taxes Total Return Index.

Global Asset Management

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