

'The best investors are dead investors!'



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Your Lifestyle's Financial Expert

Yes, you read that correctly. A surprising study from Fidelity analysed the performance of investment portfolios to determine which type of investors received the best returns.

Over a ten-year period, the clients that did the best were the ones who were dead and the second-best group were clients who had forgotten they had investments! Why is this the case?

It seems that often, investors are their own worst enemies. I believe there are many reasons for this, one being a lack of patience. Successful investing for most people is a marathon not a sprint, time in the market, not timing the market is the key.

What about those people who carry out huge amounts of research? I've met investors who never made a decision because they couldn't see the wood for the trees, they were so caught up in the minutia of investing that they missed the bigger picture.

Perhaps dead people beat everyone else as there is no temptation to panic if prices go down? There's no one thinking that any experience of poor economic conditions is a permanent destruction of wealth, so no discipline is needed to stay the course in their case.

Another well-known annual study by Dalbar also looks at how private investors fare in the US. This shows that a "cycle of loss" starts when the investors abandon their investments if the

markets fall, followed by a period of remorse as the markets recover (sells low). This fear of loss can lead to the withdrawal of capital at the worst possible time. Often the investor eventually re-enters the market when their confidence is restored (buys high). This is one of the main reasons this study shows, year after year, that the average private investors' portfolios underperform the US stock market by a very large margin.

Back to Fidelity, the dead are not watching the news or reading the newspapers and both have a tendency to be focused on doom and gloom. I often suggest to my clients not to watch the news doggedly and to sometimes give themselves a break from it, it can at times be terribly depressing.

So what's the secret for the living? I help my clients understand that the keys to successful investing are diversification, i.e. not all eggs in one basket, be a long-term steady investor and once we have a good tax efficient strategy in place, leave it to do its thing.

Keep calm and don't panic Mr Mainwaring!

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