Investors are often their own worst enemy

Worry leads to jumping in and out of the market

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In a world of financial news dominated by Bernie Madoff, credit default swaps, liquidity crunches and ballooning deficit spending, investors have only themselves to blame for sub-par returns, according to a report from Dalbar Inc., a market research company.

Dalbar's 2009 Quantitative Analysis of Investor Behavior (QAIB) found that in the 20 years ending 2008 — a period in which the S&P 500 returned 8.35 percent on average — equity investors earned a meager 1.87 percent. This ranks below the inflation rate of 2.89 percent.

Bond investors suffered just as much — earning .77 percent over that same time period while bonds on average returned 7.43 percent.

The QAIB has found similar results for the last 15 years.

Dalbar offers a simple explanation for this: "When the going gets tough, investors panic." In other words, investors jump in and out of the market.

Investors seem to be repeating this performance in 2009. At the end of July, when the market was up almost 46 percent from its March trough, $11 trillion was still sitting in money markets and other short term instruments — missing the summer rally.

Additionally, investors are impatient. The average holding period of a stock mutual fund, a long-term investment, was 3.11 years in 2008. Average holding period for a bond fund was 2.69 years.

David Avdakov, a senior portfolio manager at USBank, said it is his job to help his clients not make those mistakes.

"I think we're wired to behave that way," Avdakov said. "If a lady is walking down the street and sees a dress that costs $300, then passes by the next day and it's down to $200 and then $150 the third day, she is so excited she's going to tell her husband how she saved $150."

"But at the same time when prices go down 50 percent in the stock market, what then happens? Doom and gloom appears."

Avdakov said his education and using a process has helped his firm keep clients from becoming a Dalbar statistic.

"US Bank has definitely put forth great effort in trying to educate its clients on exactly what the QAIB is warning about," Avdakov said. "For my personal selfish standpoint, that has made my job easier because people don't panic as much and they already know what we're going to tell them."