

Compliments of
Donald G Creech, CFP(r) AIF(r)
Investor Resources, Inc.

QAIB 2005
Advisor Edition

How Advisors Help Protect Investment Returns?

Extract of Quantitative Analysis of Investor Behavior —2005 ©

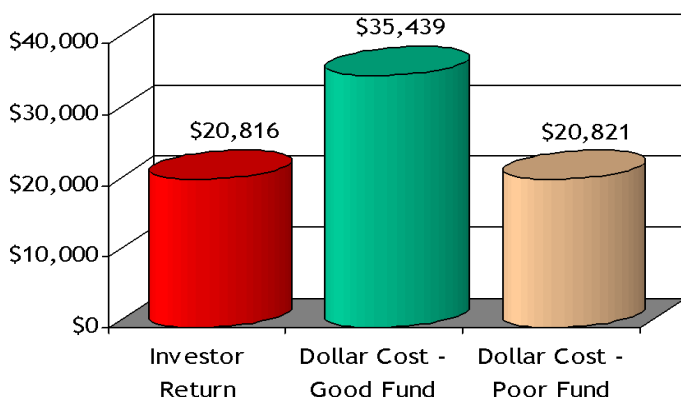
"QAIB shows that one of the advisor's greatest values is preventing investors from making wrong decisions in the future. In this report you will learn how advisors help to guide investors' actions to avoid the frequent mistakes of buying high and selling low."

©DALBAR, Inc., 2005

This material is copyrighted.
Permission for distribution
has been granted to: Donald G Creech, CFP(r) AIF(r)



Investment Selection and Investor Behavior



Dollar Cost Averaging Beats Average Investor

Using a total investment of \$10,000 over 20 years, dollar cost averaging produced 75% higher returns than the average investor earned with the same investment over the same time period.

With 60% Handicap, Disciplined Behavior Still Beats Average Investor

A fund that performs at 60% of the S&P beats the average equity investor. Since the return of 80% of equity funds exceeds 7.9% (60% of the S&P), it is less likely that such a fund will be selected.

A test was performed to determine if systematic investing through dollar cost averaging can offset the choice of a very poor performing fund. The results of the test showed that disciplined investing was superior even when using a theoretical fund with returns that were only 60% of the S&P 500. In other words, using dollar cost averaging, a fund that produced only 7.9% beats the average investor.

Commentary

It is clear from this analysis that behavior drives the returns that investors actually receive. Good investment behaviors compensate for major under performance.

Investors should learn good practices before learning how to pick a fund.

"If you can't predict future results use dollar cost averaging."

Dollar Cost Average (DCA) Results for \$10,000 Investment	Average Investor	DCA at 100% of S&P	DCA at 75% of S&P	DCA at 60% of S&P	DCA at 50% of S&P
Value after 20 Years	\$20,816	\$35,439	\$25,291	\$20,821	\$18,218
Annualized Return	3.7%	6.5%	4.8%	3.7%	3.0%



Background & History

DALBAR'S Quantitative Analysis of Investor Behavior (QAIB) has been measuring the effects of investor decisions to buy, sell and switch into and out of mutual funds since 1984. The results have shown, to varying degrees, that the average investor earned significantly less than mutual fund performance reports would suggest.

The goal of the QAIB study is to educate investors and the professionals who advise them on the importance of investors' own behaviors and the effects on the real financial outcomes of their investment or savings program. QAIB also offers guidance on how and where investment behaviors can be improved.

QAIB 2005 examines real investor returns for a period of 20 years for equity, fixed income and asset allocation funds - from January 1985 through December 2004. Whether the mutual fund industry is enjoying rapid expansion in times of economic boom, or is being battered by the bears, the key findings uncovered in DALBAR's first study from 1994 remain true: **Investment return is far more dependent on investor behavior than on fund performance. Mutual fund investors who hold their investments are more successful than those that time the market.**

Principles of Behavioral Finance

QAIB applies the principles of behavioral finance to provide measurements and insights into what mutual fund investors really do, what is in their best interest and what it costs them. Central to improving investor behavior is correcting the irrational actions that are driven by the behavioral finance factors of:

- Loss aversion...** expecting to find high returns with low risk.
- Narrow framing...** making decisions without considering all implications.
- Anchoring...** relating to the familiar experiences, even when inappropriate.
- Mental accounting...** taking undue risk in one area and avoiding rational risk in others.
- Diversification...** seeking to reduce risk, but simply using different sources.
- Herding...** copying the behavior of others even in the face of unfavorable outcomes.
- Regret...** treating committed errors more seriously than errors of omission.
- Media response...** tendency to react to news without reasonable examination.
- Optimism...** belief that good things happen to me and bad things happen to others.

Financial Advisor Role

QAIB shows that investment returns increase when the natural characteristics listed above are replaced by disciplined investment behavior. While many investors can overcome these hurdles, most need the support of a financial advisor to supply the required discipline.

The most important role of the financial advisor is to protect clients from the behaviors that erode their investments and savings.

Compliments of Donald G Creech, CFP(r) AIF(r)



QAIB 2005
Advisor Edition

Disclaimer

This study was performed and obtained from an independent third party, DALBAR, Inc. DALBAR is not associated with Investor Resources, Inc.. The information herein is believed to be reliable, but accuracy and completeness cannot be guaranteed. It is for informational purposes only and is not a solicitation to buy or sell securities.

© DALBAR, Inc., 2005

DALBAR, Inc.
The Measurement of Success
617-723-6400 DALBAR.com

*Past performance is no
guarantee of future results.*