



“Individuals who cannot master their emotions are ill-suited to profit from the investment process.”

Benjamin Graham
Father of Value Investing

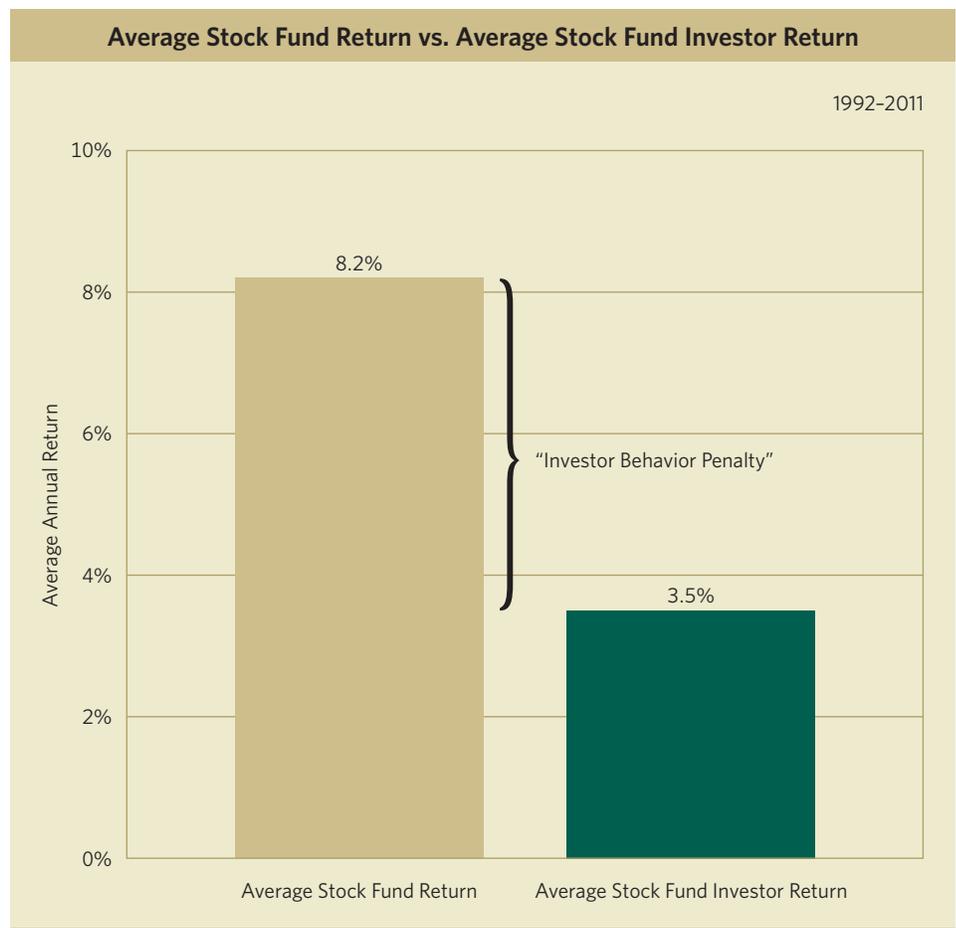
Avoid Self-Destructive Investor Behavior

A study by Dalbar underscores the importance of controlling emotions and avoiding self-destructive investor behavior. From 1992–2011, the average stock fund returned 8.2% annually while the average stock fund investor earned only 3.5%. We call the gap between these results the “investor behavior penalty.”

Why have investors historically sacrificed more than half their potential return? Driven by emotions like fear and greed, they succumbed to negative behavior such as:

- Pouring money into the latest top-performing manager or asset class, expecting the winning streak to continue
- Avoiding areas of the market that have performed poorly, assuming recovery will never occur
- Abandoning their investment plan by attempting to successfully time moves in and out of the market, a near impossible feat

Successful investors throughout history have understood that building long-term wealth requires the ability to control emotions and avoid self-destructive investor behavior.



Source: *Quantitative Analysis of Investor Behavior* by Dalbar, Inc. (March 2012) and Lipper. Dalbar computed the “average stock fund investor return” by using industry cash flow reports from the Investment Company Institute. The “average stock fund return” figures represent the average return for all funds listed in Lipper’s U.S. Diversified Equity fund classification model. Dalbar also measured the behavior of a “systematic equity” and “asset allocation” investor. The annualized return for these investor types was 3.2% and 2.1% respectively over the time frame measured. All Dalbar returns were computed using the S&P 500® Index. Returns assume reinvestment of dividends and capital gain distributions. The fact that buy and hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future. The performance shown is not indicative of any particular Davis Fund investment. **Past performance is not a guarantee of future results.**

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Dalbar, a Boston-based financial research firm that is independent from Davis Advisors, researched the result of actively trading mutual

funds in a report entitled *Quantitative Analysis of Investor Behavior (QAIB)*. The Dalbar report covered the time periods from 1992–2011.

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