“A lot of people with high IQs are terrible investors because they’ve got terrible temperaments. You need to keep raw irrational emotion under control.”

Charles Munger
Vice-Chairman, Berkshire Hathaway

Keep Emotions in Check

Emotions can wreak havoc on investor returns. Keeping them in check is critical to building long-term wealth. Unfortunately, when faced with periods of inevitable market volatility, investors are often guided by their emotions. This leads to self-destructive behavior such as timing the market, automatically avoiding equities despite attractive low prices and abandoning investment plans altogether.

Over the past 20 years, investors who kept their emotions under control built considerably more wealth than investors who were driven by their emotions: $32,950 versus $23,003.

To build long-term wealth, you must remain disciplined, unemotional and focused on your long-term goals in the face of inevitable market volatility.

The Benefit of Keeping Your Emotions in Check

Hypothetical Growth of $10,000 Over 20 Years

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<th>Driven by Emotions</th>
<th>Emotions Held in Check</th>
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<td>Reward of Unemotional Investing</td>
<td>$23,003</td>
<td>$32,950</td>
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Source: Quantitative Analysis of Investor Behavior by Dalbar, Inc. (March 2020) Lipper and Davis Advisors. Dalbar computed the Average Stock Fund Investor Return (above, “Driven by Emotions”) by using industry cash flow reports from the Investment Company Institute. The Average Stock Fund Return (above, “Emotions Held In Check”) figures represent the average return for all funds listed in Lipper’s U.S. Diversified Equity fund classification model. The average annual return for these two were 4.3% and 6.1% respectively. Dalbar also measured the behavior of an “asset allocation” investor who uses a mix of equity and fixed income investments. The annualized return for this type of investor was 2.5% 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 investment. Past performance is not a guarantee of future results.
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