ADVICE YOUR WAY™

10 Surefire Ways to Ruin Your Financial Future

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1 IGNORE THE IMPACT OF YOUR BEHAVIOR

Over the last 20 years, the market has returned an average of 8.25% per annum, but the average investor has earned just over 4% of that due to poor investment behavior.[1] Making prudent decisions is much less interesting than say, trying to time a bottom in oil prices, so, by all means, allocate your efforts there.

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2 TRUST YOUR GUT

A meta-analysis of rules-based approaches versus discretionary approaches to making decisions found that following the rules beats or equals even expert human judgment 94% of the time.[2] Rules are boring, so just do what feels right with your money!

3 LIVE FOR RIGHT NOW

The worst ever 25-year return for stocks (that includes the Great Depression) was 5.9% annualized. Patiently planning over an investment lifetime is tedious, so be sure to check your stocks every single day, where you will see red about 45% of the time.[3]

4 DO AS MUCH AS POSSIBLE

When things get scary it feels good to act, right? Right. Disregard the research showing the most active traders in Sweden underperformed their buy-and-hold counterparts by 4% a year. Also, forget about the fact that across 19 major stock exchanges, investors who made major changes trailed those who did nothing by 1.5% a year.

5 EQUATE VOLATILITY WITH RISK

Stocks outperform other asset classes by about 5% annualized after adjusting for volatility, but the ups and downs can be a lot to handle.4 Volatility also provides opportunities to buy once-expensive names at a bargain. Go ahead and ignore all of the upsides to volatility and do something "safe," like buying treasuries that don't keep up with inflation and lose real dollars every year.

6 GO IT ALONE

Aon Hewitt, Morningstar, and Vanguard all place the value of financial advice at anywhere from 2 to 3% per year in excess returns, but don't let that stop you. With multiple 24/7 news channels and hysteria-inducing magazines available to you, who needs personalized advice?[5]

7 TRY AND BEAT THE BENCHMARK

You could argue beating an impersonal market benchmark like the S&P 500 Index has nothing to do with your goals or risk tolerance, but that takes all the fun out of it! Just go watch The Big Short and pick up a few pointers there.

8 READ EVERY ARTICLE THAT MENTIONS "RECESSION"

The US economy has been in a recession nearly 20% of the time since 1928, meaning the average investor will experience 10 to 15 recessions over their lifetime.[6] But by all means, read every scary article you can rather than accepting the historical trend that recessions are a common occurrence and haven't materially impacted the long-term ability of the market to compound wealth.

9 TUNE IN TO DRAMATIC FORECASTS

David Dreman found that roughly 1 in 170 analyst forecasts are within 5% of reality and Philip Tetlock's examination of 82,000 "expert" predictions shows they barely outperform flipping a coin.[7] So, ignore the robust body of evidence saying no one can predict the future and pick a market prophet to follow.

10 IGNORE HISTORY

JP Morgan reports the average intra-year drawdown over the past 35 years has been just over 14%. What's more, the market has ended higher in 27 of those 35 years. Forget the fact the horror of 1987's "Black Monday" (a 22.61% single-day drop in the Dow) ended in a positive year for stocks.[8] Ignore historical suggestions that double-digit volatility is the norm and instead imagine vivid Doomsday scenarios that leave you in financial tatters.

[1] Dalbar Quantitave Analysis of Investor Behavior. https://www.dalbar.com/qaib/index

[2] Quantitative Value: A Practitioner's Guide to Automating Intelligent Investment and Eliminating Behavioral Errors.

[3] The Laws of Wealth: Psychology and the Secret to Investing Success.

[4] The Laws of Wealth: Psychology and the Secret to Investing Success.

[5] Aon: Aon Hewitt 2011 Help Report. Vanguard: Putting a value on your value: Quantifying Advisor's Alpha. Vanguard. Morningstar: Alpha, Beta, and Now... Gamma. Morningstar.

[6] The Behavioral Investor

[7] Contrarian Investment Strategies: The Psychological Edge

[8] Investing with composure in volatile markets. J.P. Morgan Market Insights.