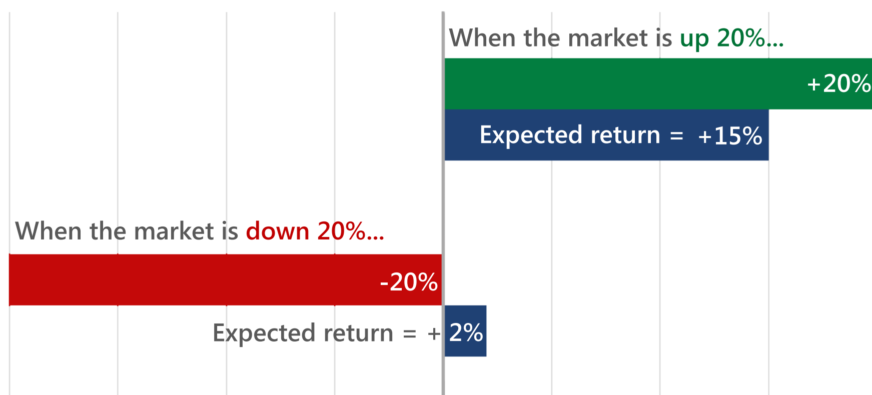
Do Investors Have Realistic Expectations About Their Investment Returns?

How do Investor Expectations Change as the Market Goes Up and Down?

In the midst of the second-longest bull market in history, which continued to rage through 2017, it's easy to understand why investors have high expectations for their investment returns. According to the Schroders Global Investor Study of 2017, investors expect an annual return of 10.2% on their investments over the next five years.[1] How realistic are those expectations, and how much do they change as the market goes up and down?

In a study conducted by Franklin Templeton, when asked what kind of return investors expected from their portfolios in a year when the market was hypothetically up 20%, the median response was a 15% total return.

When investors were asked what return they expected...



This suggests that many investors would be okay with **capturing only 75% of the market's upside in a good year.**

When asked the same question about what kind of return investors expected from their portfolio when the market was hypothetically down 20%, the median response was a 2% total return. This means that investors expect their equity portfolios to **outperform the market by 22%** in this report.

So what we can learn from this? Keeping clients happy requires a deep understanding of their expectations, goals and fears. As advisors, we must remember that *investors are not risk averse, they are loss averse.* Recognizing the cognitive factors behind investor behavior, setting proper expectations, and seeking to avoid large losses are crucial steps in client management. Tactical management may be a good solution to address all of these factors.

> As advisors, we must remember that **investors are not risk averse, they are loss averse.**

Behavioral Finance

Behavioral Finance combines psychological theory with economics and finance and is a relatively new field. It grew in popularity and significance following the financial crisis of 2007-2009. Behavioral Finance explores the underlying emotions or biases that cause people to make financial decisions, often against their best interests and in direct conflict with reaching financial goals.

Behavioral Finance explains how people view gains and losses much differently when it comes to their personal finances. Losses typically have a much higher emotional impact than gains of an equivalent amount. For example, a person who gains $100 and then loses $50 will feel much more pain than the joy felt by simply gaining $50, despite the net return being the same.[2]

Beaumont
CAPITAL MANAGEMENT

For more insights like these, visit BCM's blog at blog.investbcm.com

Beaumont Capital Management
(844) 401-7699
salessupport@investbcm.com
investbcm.com

Sources and Disclosures:

The Franklin Templeton Global Investor Sentiment Survey, conducted by ORC International. Surveys completed from February 12 to March 2, 2015. https://www.franklintempleton.com/advisor/resources/tools/behavior/about-investor-behavior

[1]Schroders. Global Investor Study. "Investors expect returns of 10.2% with millennials hoping for more". November 2017. http://www.schroders.com/en/insights/global-investor-study/investors-expect-returns-of-10.2-with-millennials-hoping-for-more/

[2]Albert Phung, Investopedia. Behavioral Finance: Key Concepts - Prospect Theory. 2017. https://www.investopedia.com/university/behavioral_finance/behavioral11.asp

Copyright © 2018 Beaumont Financial Partners, LLC DBA Beaumont Capital Management (BCM). All rights reserved.

Beaumont Capital Management (BCM) is a separate division of Beaumont Financial Partners, LLC, an SEC registered investment advisor. BCM offers tactical, defensively-oriented strategies using long only ETFs across multiple asset classes with domestic, international and global exposure.

The material contained in this piece is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any security or financial instrument, nor should it be construed as financial or investment advice. The information presented in this report is based on data obtained from third party sources. Although it is believed to be accurate, no representation or warranty is made as to its accuracy or completeness. The views and opinions expressed throughout this piece may change over time with changing market conditions or other relevant variables.

FOR INVESTMENT PROFESSIONAL USE ONLY

Beaumont
CAPITAL MANAGEMENT