

AAII: The American Association of Individual Investors

AAII Journal

AAII JOURNAL > May 2014

[Add your comment!](#)

Relative Portfolio Returns Influence Happiness

Whether an investor is happy or unhappy with his performance is significantly influenced by how his portfolio performs relative to the market. Investors are likely to be happy even if they lose money as long as their portfolio declines by a smaller magnitude than the broad market. Conversely, the proportion of investors likely to be unhappy rises during periods of strong market returns.

This conclusion is based on a study of British individual investors. Over 600 self-directed investors at Barclays Stockbrokers were surveyed during the period of September 2008 through September 2010. Respondents had a median age of 53 and median wealth of approximately \$252,000. Answers were compared against actual returns.

The average threshold for anticipated happiness was a three-month gain of 5.4%. The average threshold for anticipated unhappiness was a three-month decline of 0.2%. Expectations for the level of returns that would lead to happiness did not alter much after the initial quarterly survey period, even though the FTSE All-Share Index (benchmark for the UK equity market) rebounded strongly from the financial crisis. Individual thresholds varied greatly; some respondents were happy even with a modestly negative return, while others required returns in excess of 20%. A strong positive relationship existed between return expectations and the minimum return an investor would be happy with.

Investors responded to returns more strongly when they actively traded than when they followed a buy-and-hold strategy, used index funds or employed an adviser or money manager. Long-term investors were happy with "much lower returns" over a three-month period than active traders were. Similarly, older, richer and more financially literate investors were happy with comparatively lower levels of returns. The study's authors theorized that higher happiness thresholds may explain why poorer and financially illiterate investors are more likely to buy "lottery stocks or take high idiosyncratic (individual) risk."

Risk tolerances and confidence also played a role. Risk-averse investors were happier with lower levels of return. Curiously, investors with lower levels of confidence set higher thresholds for happiness. The authors think this could suggest that either confident investors are more skillful and set more realistic expectations or that confidence promotes the ability to be comfortable with a lower level of returns.

Source: "Investor Happiness," Christoph Merkle, Daniel Egan and Greg B. Davies, SSRN, January 2014.

Discussion

No comments have been added yet. Add your thoughts to the discussion!

You need to log in as a registered AAIJ user before commenting.

[Create an account](#)

[Log In](#)

Free Investing Guide from the Experts at AAIJ

Your Blueprint for Retirement Success

We believe that becoming a smarter, more confident investor is easier than you think.

Your **FREE** copy of our special guide, **Profitable Retirement Planning**, will give you the knowledge, tools and confidence you need to **grow and protect your wealth**. Enter your email below to access this limited-release report now.

Email:

[Get your FREE guide](#)

In This Issue

May 2014 Issue

EDITOR'S NOTE

[Editor's Note](#)

A look at what's in the May 2014 AAIJ Journal.

PORTFOLIO STRATEGIES

[The Danger of Getting Out of Stocks During Bear Markets](#)

Panicking and pulling out of stocks during turbulent market conditions can have a significant and lasting negative impact on your wealth.

PORTFOLIO STRATEGIES

[The Three Pockets Approach to Investing](#)

Segmenting your portfolio into savings, investing and trading pockets can simplify the allocation process and better help you achieve your goals.

FINANCIAL PLANNING

[From Saver to Spender: Managing Your Money in Retirement](#)

Following these nine guidelines can help reduce your financial stress and increase the odds of enjoying a successful retirement.

AAIJ STOCK IDEAS

[Strategic Value Investing: Screening for Cash Flow and Value](#)

Positive cash flows are as important as earnings. This screen identifies companies that both generate positive cash flow and trade at reasonable prices.

PORTFOLIO STRATEGIES

[Peculiar Facts From 500 Years of Finance](#)

Lesser-known but notable events that not only have led us to the present day, but also had an impact beyond the financial markets.

MUTUAL FUNDS

[The Mutual Fund Cash Dilemma](#)

While most mutual fund managers are required to stay invested, some have the flexibility to raise their cash allocations, raising an allocation dilemma for shareholders.

AAIJ MODEL PORTFOLIOS

[REITs and Frontier Markets Drive Model Fund](#)

Portfolio Higher

Good first-quarter returns by the REIT and frontier markets funds helped the Model Fund Portfolio beat the S&P 500 on a year-to-date basis.

Departments**Briefly Noted**

- [10-K Filing Size Impacts Volatility](#)
- [Confusion About Retirement Income Taxes](#)
- [Relative Portfolio Returns Influence Happiness](#)
- [New Rules for IRA Rollovers](#)

Letters

Member questions and comments on recent AAIJ Journal articles

[Asset Allocation](#)[Investing Basics](#)[Model Portfolios](#)[Stock Screens](#)[Discussion Boards](#)[AAII Guides](#)[AAII Investor Classrooms](#)[Local Chapters](#)[Financial Planning](#)[Investor Surveys](#)[AAII Publishing Calendar](#)[AAII RSS Feed](#)[AAII Investor Audio Series](#)[AAII Dividend Investing](#)[Computerized Investing](#)[Quarterly Mutual Fund Update](#)[Stock Investor Pro](#)[Stock Superstars Report](#)[AAII Baltimore Chapter](#)[AAII Denver Chapter](#)[AAII Los Angeles Chapter](#)[AAII Pittsburgh Chapter](#)[AAII Washington D.C. Metro Chapter](#)