

Investor behaviour – don't follow the crowd

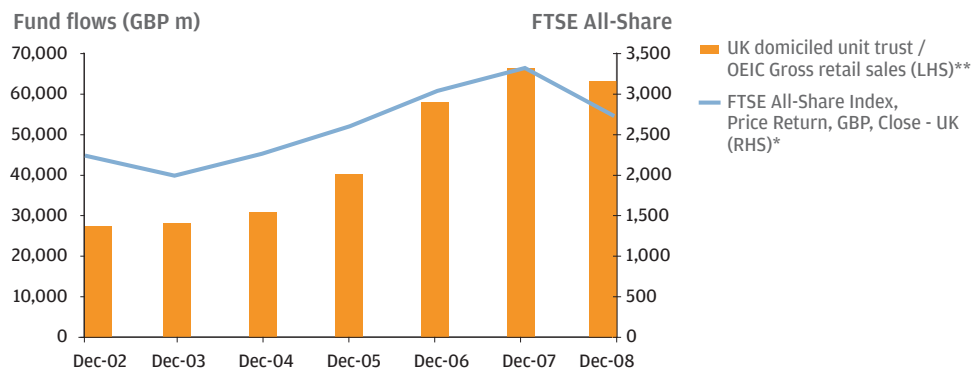
All information as at 28 February 2009 unless indicated otherwise

Following the herd can be detrimental for returns

Investor behaviour is driven by sentiment. When markets are strong and share prices are high, flows into equity funds also tend to rise. But when markets are low and share prices offer better value, fund flows are often weak. Therefore, many investments are made at the top of the market, while investors frequently miss out on the opportunity to invest when share prices are low. The result can be damaging for long-term returns.

Over the last six years, for example, fund flows into UK equity funds have closely followed the UK stock market.

Buy high, sell low – UK fund flows have followed the FTSE All-Share



* FTSE All Share data sourced from FactSet (annual average) ** UK domiciled unit trust/OEIC gross retail sales from IMA (Investment Management Association)

It would seem that buying when others are selling and holding onto equity holdings for the long-term is the best strategy. Too many investors are too quick to sell when markets turn down, potentially missing out on the subsequent rebounds in the market. Investors with the ability to resist the urge to sell on the first signs of turbulence and ride out market volatility could reap the rewards in the end.

“Profit from folly rather than participate in it”

Warren Buffet, CEO Berkshire Hatherway Inc.

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