VIA IV

In praise of the (above) average investor

Open the financial section of any newspaper or magazine and you'll see frequent (and frequently condescending) references to a mysterious individual known as the "average investor." Who is this person? Is he related to you?

If truth be told, most analysts and brokers don't think too highly of the so-called investor on the street. And they don't bother to keep this low opinion to themselves. Here's one typical quote from a recent issue of Barrons:

"Considering that the masses' general investment knowledge could be writ large on the head of a pin (pro- fessional investment advice is essential)."

Here are other sentiments from the web sites of national brokerage firms:

"... the average investor's own behavior is an impediment."

"... the average investor is too susceptible to a good sales story or a hot stock tip."

Even the eminently fair-minded David Swensen, legendary manager of the Yale Endowment Fund, says with a shrug: "The likelihood of ever producing a nation of effective individual investors ... seems small."

The consensus view on the floors of trading rooms is that non-professionals can't fathom all the intricacies of successful investing, nor can they be trusted to follow the imperatives of long-term performance. They must be spoon-fed the basics and patiently cajoled to the correct decisions.

As a result, many marketers "talk down" to investors. Complex concepts are over-simplified; returns are reported like basketball scores; Advisor opinions are presented as holy writ.

To that we say: baloney.

Knowledge is confidence. Our experience is that most educated investors crave reliable information. That's what we're committed to providing you at VIA IV – balanced, reasoned and usable information to enlighten your investing choices. Naturally, we don't expect you to be conversant in all the details of arcane financial models, any more than you would expect the Advisor to claim expertise in medicine or law. We recognize that you are successful at your own chosen career. Investing happens to be ours.

Mutual respect should prevail. We'll never shortchange you on facts, or sugarcoat market realities.

The real truth is, on more than one occasion in the past decades it was active-management professionals who panicked – dumping whole equity sectors at the first sign of trouble – while unsung amateurs steadied the boat.

Which brings us back to the original question: who is the average investor? A recent Harris Poll provides some clues. Taken as a whole, respondents said they:

Started investing at age 30.

Now have $62,400 in individual stocks; $95,000 in mutual funds. Typically hold an investment (a stock or fund) for 7.8 years.

The average shareholder has nearly 20 years of investing experience, according to this survey. Most described their investments as "moderately risky." 60% of investors are male, 64% married. Most say they expect roughly a 10% return, over time.

Respondents gave themselves a "C+" in investing knowledge, but only 10% of men and 27% of women agreed with the statement "investing is too complicated for me to understand."

Significantly, one out of five respondents said they conduct virtually all their investment transactions online, and analysts say this number is growing rapidly. In other words, the typical American investor seems reasonably well informed, realistic in terms of expectations, and not afraid of investment risk.

But now for some cold water.

Other surveys indicate there is one area where investment professionals might have a valid point with their less than sanguine assessment of "average investors." That's the question of passive vs. active management.

Professionals know that 40% to 50% of all institutional and pension funds – i.e., the Big Money – are invested in indexes. But although benchmark studies overwhelming show that passively-managed/index portfolios historically out-perform "stock picking" active-managed funds, some retail investors unfortunately still are enamored of the "star" managers and higher-fee funds. These are not VIA IV investors.

(For more on active vs. passive management, click on our white papers in The VIA IV library or the VIA IV Investment Primer.)

So then ... who is the average VIA IV investor?

First, we don't believe anyone investing with VIA IV considers himself average, ordinary or typical. Nor are you seeking average returns. Consistently above average returns over time, relative to investment risk,
is what The VIA IV Portfolios are designed to deliver. And presumably this is the reason you are investing with us.

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The key to defining your VIA IV investor profile, and your portfolio choice, isn't necessarily age or martial status or even your income bracket, as the Harris people would have us believe. It's largely a matter investment knowledge and time horizons.

Here are some guidelines:
The aggressive VIA IV investor generally has:

• An excellent understanding of financial markets and investment principles, including the benefits of passive over active management (a trait shared by all VIA IV investors).

• An investment time horizon of 10-15+ years.

• A tolerance for very short-term fluctuations, understanding that broad asset allocation reduces relative investment risk over time while optimizing performance.

The moderate VIA IV investor (neutral portfolio) generally has:

• An equally strong grasp of markets and principles, but with a somewhat shorter time horizon – on average, 8 years.

The conservative (or balanced) VIA IV investor has:

• A more limited time horizon, around five years.