Who snagged the best investment results in 2021? Dalbar knows

By Editorial Staff *Thu, Apr 21, 2022*

Dalbar founder Lou Harvey's latest Quantitative Analysis of Investor Behavior shows how much more equity investors might have earned in 2021 if they had stuck to the fundamentals. But a sector bet on real estate would also have been wise.

Buy-and-hold investors in equity index funds, equity value funds and real estate sector funds earned the highest average returns in 2021. Investors in bond funds fared poorly, according to **Dalbar**'s Quantitative Analysis of Investor Behavior (QAIB) for the period ending December 31, 2021.

The average investor has maintained an approximate 70% equity to 30% fixed income allocation since 2017, Dalbar said. Inflation for calendar 2021 was 7.04%. The highlights of the latest QAIB survey are below.

The average equity fund investor:

- Outperformed the S&P 500 in the first two months of 2021 but in only two of the remaining 10 months.
- Experienced an investor gap [difference between indices and average investor performance] in 2020 (1.31%) despite an epic market meltdown in March 2020 due to COVID.
- Was a net withdrawer of assets in 2021 for the sixth consecutive year.
- Finished the year with a return of 18.39% versus an S&P 500 return of 28.71%; an investor return gap of 1,032 basis points (bps)—the third largest annual gap since 1985, when QAIB analysis began.
- Would have earned $17, 950 in 2021 on a portfolio with a balance of $100,000 at the beginning the year. A buy-and-hold strategy of $100,000, earning S&P returns, would have earned $28,705.
- Performed best in value funds, with the average small-cap value fund investor being the top performing size and style investor (30.38%)
- Had retention rates averaging 4.36 years in 2021. This was a rebound from a 2020 low of 3.51 years
- Experienced an annual return of 23.44% if invested in equity index funds versus an annual return of 18.18% if invested in actively managed equity funds

The average fixed income fund investor:

- Finished 2021 with a negative return (1.55%) versus a BloombergBarclays Aggregate Bond Index negative return (1.54%)

- Was a heavy contributor of assets in 2021

The average real estate fund investor was the top performing sector fund investor, earning 38.89% in 2021.

Retention rates increased for the average fixed income fund investor and average asset allocation fund investor in 2021. For bond investors, retention rates jumped to 3.44 years from 3.12 years. For asset allocation investors, retention rates increased from to 5.45 years from 4.38 years.

The aggregate outflow of equity assets and inflow of fixed income assets over the past several years suggest a rebalancing on the part of investors after significant appreciation of the equities within the portfolio.

The equity markets have shown an ability to recover from major declines within five years. Since 1940, the S&P experienced a drop of 10% or more in eight years. In those eight years, the S&P recovered within a year, and it recovered from every decline of greater than 10% within the subsequent five years.

Prudent Assett Allocation is an investment strategy, created by Dalbar, that sets aside the cash needs for five years into preservation investments. The remainder of the portfolio is invested in growth assets that maximize return.

QAIB uses data from the Investment Company Institute (ICI), Standard & Poor's, Bloomberg Barclays Indices and proprietary sources to compare mutual fund investor returns to an appropriate set of benchmarks. Covering the period from January 1, 1985 to December 31, 2021, the study utilizes mutual fund sales, redemptions and exchanges each month as the measure of investor behavior.

These behaviors reflect the "Average Investor." Based on this behavior, the analysis calculates the "average investor return" for various periods. These results are then compared to the returns of respective indices.

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