Annotated SweetSpot Bibliography

"We have met the enemy and he is us."

~ Pogo

In reverse chronological order:

Dalbar's 20th Annual Quantitative Analysis of Investor Behavior 2014 - Advisor Edition. Among the key findings:

- The belief that investors will make prudent decisions after education and disclosure has been totally discredited. Instead of teaching, financial professionals should look to implement practices that influence the investor's focus and expectations in ways that lead to more prudent investment decisions.
- The best performing months of 2013 did not follow significant fund inflows, suggesting that mutual fund investors were not able to time their cash flows to optimize performance.
- The gap between the 20-year S&P 500 return and the average equity fund investor return expanded in 2013.
- The greatest losses occur after a market decline. Investors tend to sell after experiencing a paper loss and start investing only after the markets have recovered their value. The devastating result of this behavior is participation in the downside while being out of the market during the rise.

See also: Dalbar press release, April 9, 2014.

Same Story, Different Year: The Behavior Gap Still Exists, by Carl Richards, March 3, 2014. "We're still making the same old mistake of buying investments when prices are high and selling them once their prices have fallen... More than 10 years after I first started thinking about this data, the behavior gap still exists. The behavior gap is what I refer to as the difference between what the average investment returned and what the average investor earned...

"The hard part of investing isn't picking the best investment. Instead, it's sticking with the one we've picked. Only then will we have a shot at closing the behavior gap over the next 10 years... The best part about this is that once you design a portfolio, the only thing you have to do is nothing, aside from some occasional rebalancing when some investments rise and others fall. It reminds me of my favorite Warren Buffett quote: 'Benign neglect, bordering on sloth, remains the hallmark of our investment process.' As he's demonstrated more than once, investing is one place where we are rewarded for being lazy."

Mind the Gap, by Russ Kinnel - Morningstar FundInvestor, February 27, 2014. "The 10-year gap between the average investor and the average fund ballooned to 2.49% by the end of 2013 from 0.95% at the end of 2012. In sum, the typical investor gained 4.8% annualized over the 10 years ended December 2013 versus 7.3% for the typical fund. The biggest gaps were in sector funds and international equity. That's not surprising, as more-volatile funds tend to lead to bigger gaps.

"Generally big pivot years for the markets lead to the worst timing. Investors sell after a bear market and buy after a bull market even though that's contrary to buying low and selling high... The data tell a tale of poor timing, and it seems to be getting worse. I suspect the 24-hour news cycle inundates us with news and opinions leading to investing based on anxiety rather than logic."

"Stick to Your Plan: In the bigger picture, though, the way to avoid letting fear or greed drive your decisions is to develop a robust plan and stick to it. If you understand why you own what you own, you're much less likely to panic when you hit turbulence.

"Tune Out Noise: Don't spend too much time watching TV news or checking your accounts. It only leads to bad behavior. Who cares if a talking head predicts gold will surge and stocks will tank? Focus on your needs and goals. As the data show, timing markets is too difficult, so have faith in your plan and carry on regardless...."

Why Investors Repeat Mistakes, by Allan Roth, February 26, 2014. "As investors, we think we learn from our mistakes, but far too often we don't... Dan Ariely, Duke University professor of psychology and behavioral economics, and author of books such as Predictably Irrational... explained there's a big difference between learning a lesson in general and acting on it specifically... [W]e are storytelling animals and we can't help telling ourselves stories that override the general lesson we think we've learned...."

Why Are There Timeless Lessons That Do Not Get Arbitraged Away? by John Alberg and Michael Seckler, February 11, 2014. "Strategies in which an investor buys shares in good companies mired in high pessimism (and therefore offered at low prices) bubble their way to the top in terms of persistent, long-term performance. By adhering to these types of contrarian or value-oriented strategies, investors can perform consistently and remarkably well across long periods. No other strategy even comes close.

Why We Buy in a Marked-Up Market, by Carl Richards - January 13, 2014. "Investment success is not a matter of more information, intelligence or skill. It's a matter of behavior. By recognizing that success is about behavior and not something else, we can start building in the corrective measures that will help us avoid mistakes in the future. We can put emotional guardrails in place to help us avoid behavior that keeps us from reaching our financial goals. Once we accept that buying high and selling low is our natural tendency, then, and only then, can we start to fix it."

Tough Times for Classic Value Investors, by Laurence B. Siegel, February 19th, 2013. "The market crash of 2008 had a disproportionate impact on classic Graham and Dodd value managers who rely on the availability of 60- and 80-cent dollars and on the market's willingness to run those prices up to fair value. Value is a strategy that requires patience and risk tolerance... Investors who want to profit... need to adopt a long-term horizon and stick with it, despite temporary setbacks."

Book: The Signal and the Noise: Why So Many Predictions Fail - But Some Don't, by Nate Silver, September 27, 2012. Nate Silver examines the world of prediction, investigating how we can distinguish a true signal from a universe of noisy, ever-increasing data.

Book: Surviving Uncertainty: Taking a Hero's Journey, by Lane Wallace, July 26, 2012. Wallace makes the obvious point that we cannot control all that happens to us. But then she takes on the question: So what do we do about that? Her answer: If we're smart, instead of railing against the uncertainty we cannot control, we can work to become better at dealing with it. Uncertainty doesn't have to be a curse. It can be, instead, an opportunity for change and growth. If you can master the art of surviving -- and thriving -- in uncertainty, you will never have to fear it again.

Book: The Behavior Gap, by Carl Richards, January 3, 2012. "It's not that we're dumb. We're wired to avoid pain and pursue pleasure and security. If feels right to sell when everyone around us is scared and buy when everyone feels great. It may feel right -- but it's not rational."

Book: Exchange-Traded Funds For Dummies, by Russell Wild, December 2, 2011. The author is a leading proponent of buy-and-hold investing using low-cost market-index funds. The link is to Mr. Wild's review of SweetSpot investing.

Auditor's Report, Mellen, Smith & Pivoz PLC, Certified Public Accountants, February 18, 2011. Reported returns of completed SweetSpot trades from the program's inception in 1999 through January 2011 were verified by an independent third-party auditor.

When to Buy or Sell? Don't Trust Your Instincts, by Paul Sullivan, March 11, 2011. "Anyone watching television commercials could easily conclude that trading stocks is something a baby can do from a crib. But new research into 17 years of call records at a boutique investment adviser shows that the baby in all of us is likely to buy or sell at the worst possible time. The study... found that the value of investment advisers was... in their ability to restrain investors from impulsively trading...

"[R]ecent volatility shouldn't matter so much — who cares what just happened? But to too many investors, yesterday matters a lot and threatens to ruin tomorrow... [T]he study adds to research into the so-called behavior gap..."

Paper: The Abandonment Metric: Negative Fund Flows as a Predictor of Excess Returns, by Neil Stoloff, March 7, 2011. The paper provides an overview of the literature in support of contrarian investing, and describes the specific method employed by SweetSpot Investments LLC.

Study: Past Performance is Indicative of Future Beliefs, by Philip Z. Maymin and Gregg S. Fisher, January 10, 2011. "The performance of the average investor in an asset class lags the average performance of the asset class itself... [I]nvestors chase returns and in doing so create the conditions of their own demise..."

When it comes to retail fund investors, don't follow the wisdom of the crowd, by Allan Sloan, October 4, 2010. "[B]y buying high and selling low, stock fund investors over the past 10 years paid about 22 percent more than the market's average price... Since 1984... retail stock fund investors have bought at an average price of 926 on the S&P 500, even though the index averaged only 773. That's a 19.7 percent difference... yes, 'past performance is no guarantee of future performance' is a cliche, but it's a cliche you should heed instead of projecting past returns into the future..."

Book: The Little Book of Behavioral Investing: How Not to Be Your Own Worst Enemy, by James Montier, January 26, 2010. Montier addresses the most common behavioral challenges and mental pitfalls that plague investors.

Book: The Drunkard's Walk: How Randomness Rules Our Lives, by Leonard Mlodinow, May 5, 2009. The author sheds light on the true nature of chance and reveals the psychological illusions that cause people to misjudge the world around them.

Study: The Selection and Termination of Investment Management Firms by Plan Sponsors, by Amit Goyal and Sunil Wahal, August 2008. This study showed that executives who are responsible for hiring and firing institutional money managers tend to fire those who have underperformed over the previous three years, and replace them with managers who have outperformed during the same period. The study followed the subsequent performance of both hired and fired managers. Over the next three years, the hired managers underperformed, and the fired managers outperformed. These highly paid executives would have done better by sitting on their hands.

Book: The Wisdom of Crowds, by James Surowiecki, August 16, 2005. The title of this book was worrisome. SweetSpot investors bet against the crowd, so if the crowd is wise, we're in trouble. No worries -- The crowd is indeed wise, but only when most people in it think and act independently of each other. Everyone in the crowd we're betting against is informed by outlets of the financial press that all tell the same story.

John Alberg and Michael Seckler addressed the wisdom of crowds recently in "Why Are There Timeless Lessons That Do Not Get Arbitraged Away?" (cited above): "If individual investors behave in uncorrelated ways, then individual misjudgments might cancel each other out, resulting in an efficient, wisdom-of-the-crowd market where price and value rarely diverge. However, such an efficient market is fantasy. It is not what we have observed in the historical record or encountered in our own investing."