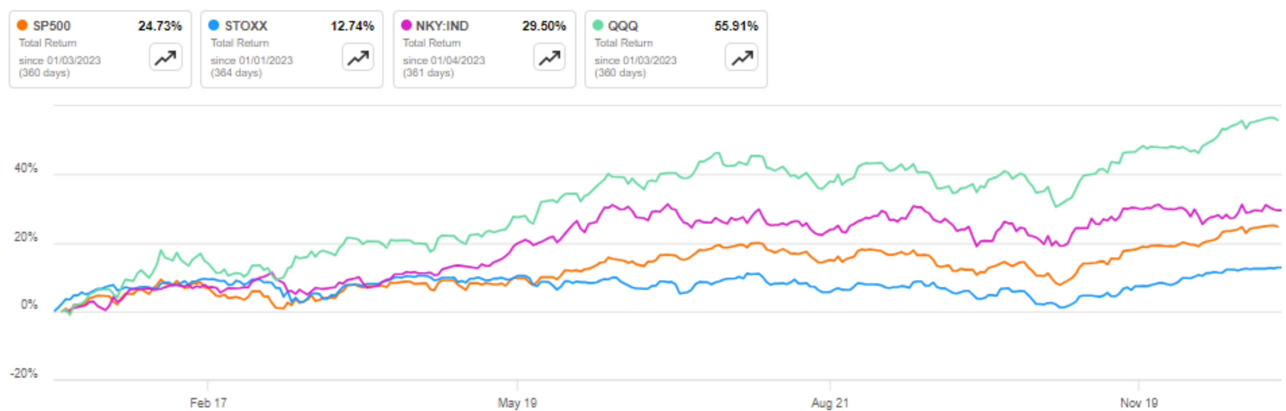
<u>**The Importance of Checking Annual Pension Statements… But Only Infrequently:**</u>

By Dani Schijveschuurder 21 January 2024

So its been a wee while since I've put pen to paper, and though in no way do I claim to be an avid writer, I am undoubtedly suffering from "Writer's block". Here in Israel we're still stuck on what is approaching October 107th, where many of us are in "survival mode", whereby anything that is not immediately urgent gets pushed to the wayside.

Which is partially why I felt a rude awakening when I was sitting at my desk, at 8:37 in the morning, enjoying a well-deserved cuppa coffee (#4 of the day), when I was rudely interrupted by a new email chime as my annual Pension statement hit my inbox.

In hindsight, 2023 was an undeniably strong year for the stock market of most region's in the world.



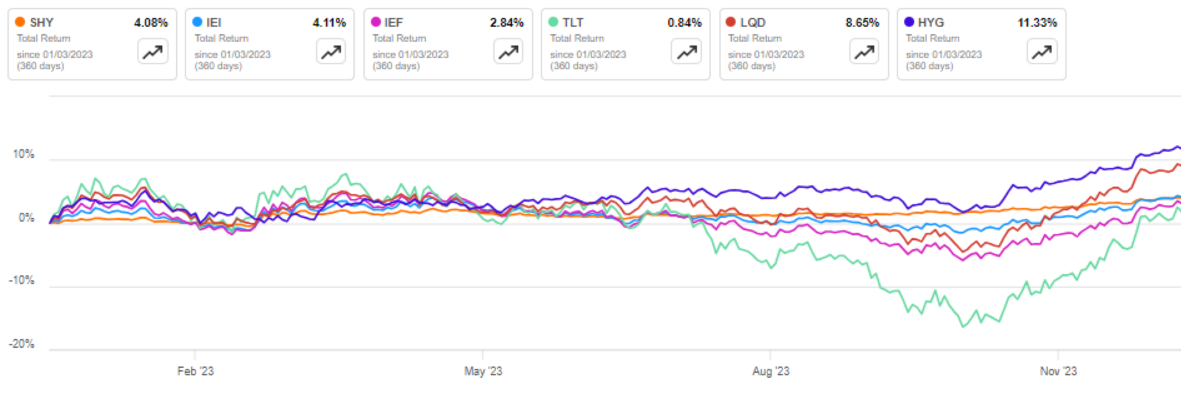
The S&P 500 was up almost 25%, which was only partially bettered by Japan's Nikkei 29.5%, and nowhere near the Nasdaq which powered to a 56% annual return. Even Europe managed a double-digit gain.

Obviously there were regions/sectors that did not work as well, with the FTSE 100 eking out a 4% return, whilst the Hang Seng was down almost 14% and the Utilities sector lost 7%.

But overall, a global ACWI investor would have been up 20%-25%. Which would have surpassed even the most optimistic expectation going back 12 months (to the beginning of 2023), with a recession practically a foregone conclusion in the minds of most strategists.

In the world of Fixed Income too, for the first time in many years, most Bond Investor's portfolios would have made a decent enough return, obviously depending upon the makeup in terms of Government Bonds versus Corporate Bonds, yield curve positioning and credit quality.

Government bonds up to about 7 years out would have returned about 4%, Longer dated Treasuries were essentially flat, whilst Investment Grade Bonds and Higher risk Junk Bonds returned high single digit and low double digit returns respectively.



Not too bad, especially given all the concerns that abounded with regards to the economy, inflation, yadda yadda yadda heading into the year. However, if we take a step back, and recall that in the last few years we have been through a global pandemic, the highest inflation seen for nigh on 50 years, the most aggressive hiking cycle, and bond losses that mirrored the extent and duration of the Global Financial Crises, then one might begin to fear what would remain of their pension?

Here is the pre pandemic period (Jan 2020) through to end 2023 showing the return of the different segments of the "traditionally safe" bond market.

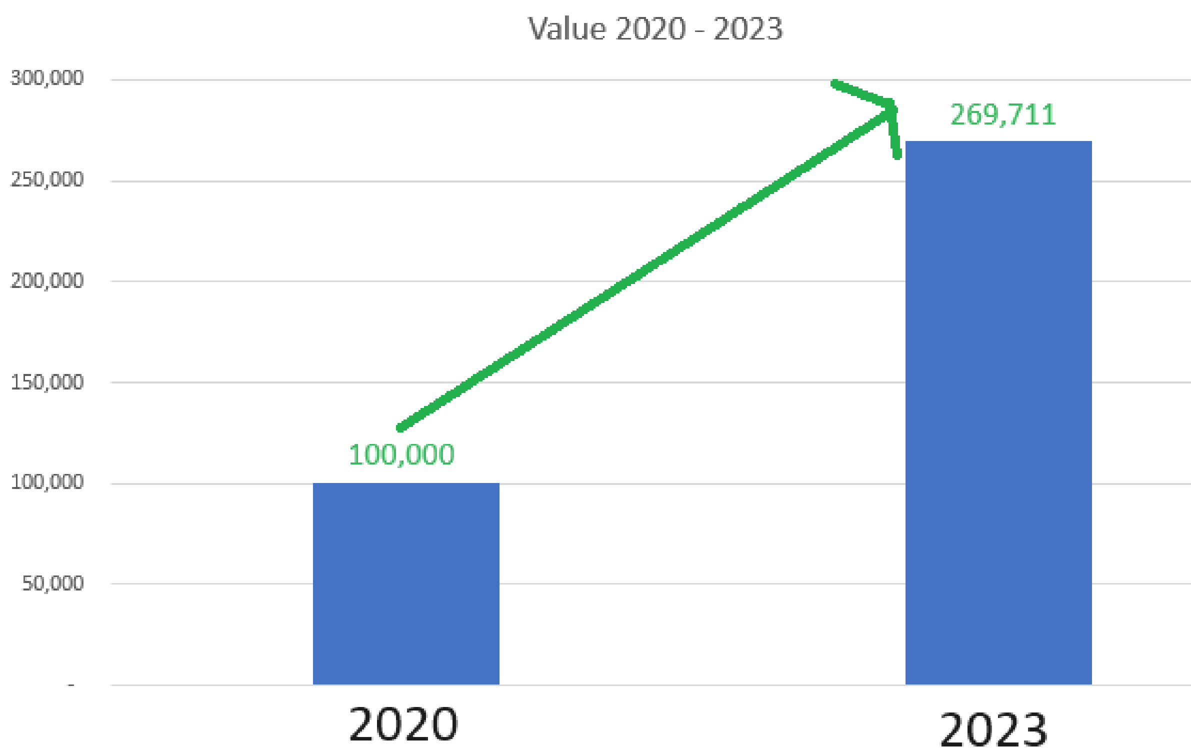
The main Bond Index, the Barclays Aggregate was down 3.25% Total Return (which includes coupon payments), Long Treasuries were down over 20% after suffering a 50% peak to

trough drawdown, whilst Investment Grade Bonds were similarly down a couple of percent. It is only the risky so called "junk bonds", that ended with any positive performance, a mere 7.2% over the 4 years.

Yikes!

With that rather scary introduction in mind, I ran an analysis on a theoretical investor, who started 1 Jan 2020 with a $100,000 portfolio. I assumed our theoretical investor made a monthly contribution of $2,700* throughout the period, was invested 50% Global Equities (ACWI) and 50% Bonds (AGG), and rebalanced the portfolio annually. Our theoretical investor would have thus contributed $32,400 annually, ($2,700 per month) for a total contribution of $129,600 throughout the 4 years.

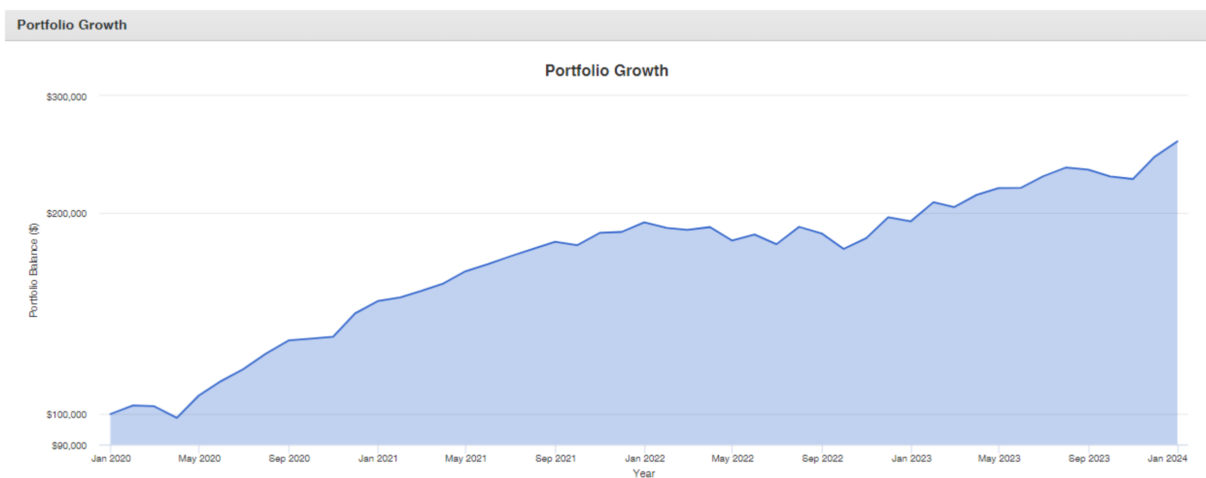
So whats the bottom line 4 years later?



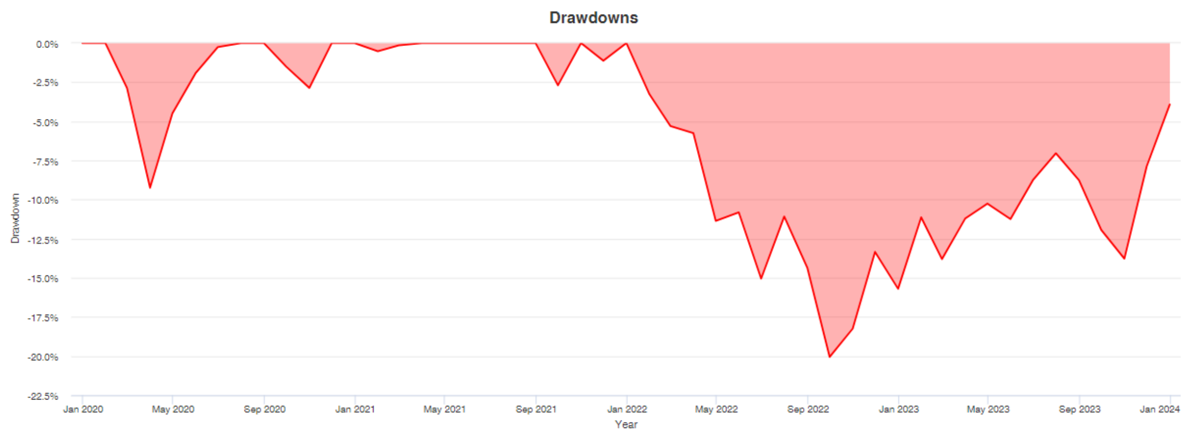
With hindsight, starting from 2020 (pun intended), despite going through one of the longest bear markets in history, where drawdowns were meaningful, one's portfolio (despite being constantly invested half in the bond market which took a hammering), produced pretty decent returns. If one were to only look 4 years later, they would have seen a meaningful increase to the overall size of their portfolio.

To gain a little more granularity, the performance of this portfolio was 16.6% over the period, which was just shy of an annualized 4%. The best calendar year performance was 13.98% in 2023, and the worst year was 2022 at -15.7%.

Portfolio growth shows a nice gentle increase over time.



However, if one had looked on a much more frequent basis, one would not have been immune to the fairly sizable drawdowns. There was a rapid 10% drawdown as Covid put in an unwanted appearance, and then a more drawn-out drawdown of 20% as inflation (and interest rate hike expectations) started to be priced in. In fact, there were intra-year drawdowns of 9.2%, 20% and even 7.25% in 2023 which ultimately turned out to be a very strong year.



I assume that if you have made it thus far, then you are more likely to be classified as a human being, rather than any other species. And as humans, we are emotional beings, and typically, decisions taken when feeling particularly emotional often end up being poor decisions.

Daniel Kahneman and Amos Tversky introduced the concept of “Myopic loss aversion”, a fundamental concept in behavioral finance, which assumes that people dislike losing money more than they like making it. And the more frequently one checks one’s portfolio, the more exposed one becomes to shorter term volatility and negative shorter-term performance; and by extension, the higher the chance of making an irrational decision based upon heightened emotion.

This can be backed up in a 1997 research paper by Kahnerman and Tversky, which showed that investor’s aversion to losses reduced their overall returns.

“The investors who got the most frequent feedback (and thus the most information) took the least risk and earned the least money.”

The more often you check your portfolio, the more likely you are to see a loss. This could lead you to conclude that your portfolio is riskier than it really is. Which could lead to emotional decisions based on amending your risk tolerance etc. Oftentimes, reactive investor behavior based upon emotions, is a main determinant of long-term poor performance, and not being able to meet your financial goals.

So please. Do yourself a favor. Ensure your portfolio is reviewed periodically and is in line with your own personal long-term goals. And then take a step back and let your portfolio dance to the tune of the market. Please avoid the temptation to check in on a too frequent basis. Ignorance is bliss!

*Why $2,700 monthly contribution? I was working the numbers for an average Israeli wage of circa 15,000 NIS (monthly), with a circa 18% pension contribution = 2,700 ….. but the program assumes a $ sign)!!! Obviously any number could have been chosen ……..

Dani Schijveschuurder is an investment advisor that provides advice regarding the financial vehicles mentioned in the article. The views and opinions of the writer are his own and do not represent the views or opinions of the Goldrock Partners or its affiliates.