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Stop Checking Your Retirement Portfolio So Often: Columbia Study

A paper from Columbia Business School suggests advisors take a 'no news is good news' approach to client communication

The "model" retirement investor only checks his portfolio once a year, a Columbia professor says.

Research from Columbia Business School found that checking in too frequently on your retirement portfolio can result in lower returns. Advisors, then, should lay off constant updates every time the market dips.

It's a simple premise: Investors who are driven by daily fluctuation in the market rebalance their holdings to get out of stocks that are dropping and miss out when they go back up. The report suggests it's better to rebalance less frequently and let the market go through its ups and downs naturally.

"History has shown us that the stock market is a relatively safe bet over the long term because it has typically grown," Michaela Pagel, assistant professor of finance and economics at the business school, said in a statement. "Investors would be wise to keep this in mind, because those that check their portfolio too often and are driven by the daily or hourly fluctuations in the market may make decisions that have a negative impact on their long-term financial prospects."

In an interview with ThinkAdvisor, Pagel said that when people have certain preferences, they're happier when those preferences are met, an assumption that is "very different from what is assumed in standard economic models where people only care about consumption."

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The model she puts forth in her paper takes some of the preferences into account.

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"Once you make those models more realistic with these new preferences, then you find that people like to be inattentive to their portfolios," she said on Thursday. "They like to not monitor their portfolios constantly because they're always more upset when they see the markets going down. The benefits of monitoring your portfolio constantly are very little because your consumption is very little affected by the stock market."

The paper's message for financial advisors, according to Pagel, is to help their clients find an appropriate portfolio share and then "encourage them to be inattentive so that they don't make wrong decisions."

She described an experiment where subjects are offered a scenario where they lose $1, but gain $2. They're better off than when they started, but frequently they choose to pass on the opportunity.

"When people are offered a lose $1, gain $2 gamble, they decline the gamble because they dislike the $1 loss twice as much as they like the $1 gain," she said.

Ultimately, Pagel found that her model investor only looks at his portfolio approximately once a year.

Pagel also found that the share of riskier assets should be near 50% or 60% depending on the client's age. Advisors can do their clients a great service by taking rebalancing out of their hands, she suggested. "They say 'I have a 60% portfolio share, but I want to ignore my portfolio in the next year,' so then the advisor should make sure the risky versus risk-free assets share stays at 60%."

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