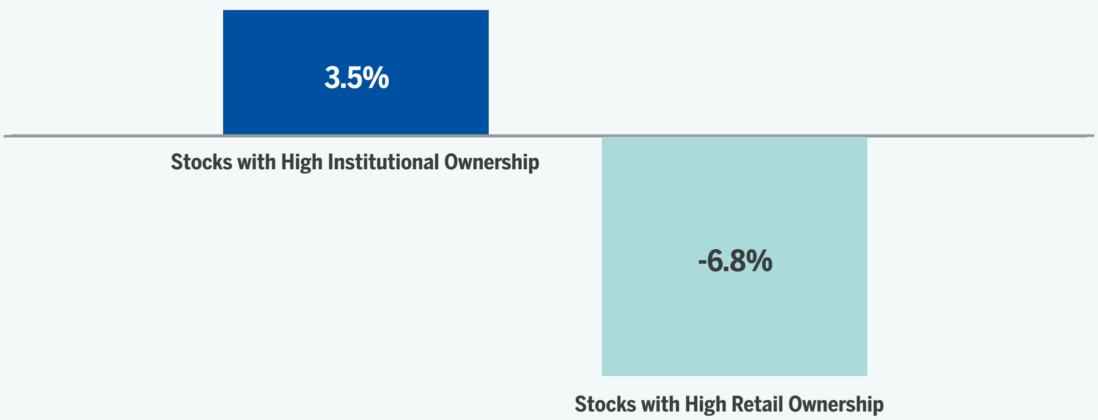
ALGER

Alger On the Money
A View on the U.S. Market

What Is Your Bias?

For every buyer in the stock market there is a seller, but why do some acquire shares of a security while others sell? Why do some types of investors fare better than others in certain market environments? To answer these questions, it is helpful to understand who the major market participants are and what their biases may be.

Institutional vs. Retail
1-Year Performance



Source: Cornerstone Macro. Data through the year ended August 3, 2021. Based on S&P 1500.

- Stocks with high institutional ownership have done much better than stocks with high retail ownership over the past year. To understand why retail-heavy stocks have underperformed over the past year, we must understand how retail investors typically invest.
- Stocks with large retail ownership often have defensive characteristics such as high dividend payout ratio and low beta, both of which have underperformed over the past year. The weak relative performance of large telecommunications and consumer staples companies, many of which are widely held by retail investors, is a good example of this risk averse bias. Institutional investors certainly have their own biases but they are generally less risk averse than retail investors, which has helped their performance over the past year.
- We all have biases that left unchecked can hamper our returns. We have developed a checklist (Making Better Decisions Checklist) that can help investors recognize and overcome their biases and hopefully make better decisions.

Inspired by Change, Driven by Growth.

The S&P 1500 is a stock market index of U.S. stocks made by Standard & Poor's. It includes all stocks in the S&P 500, S&P 400,and S&P 600. This index covers approximately 90% of the market capitalization of U.S. stocks.

Beta measures a portfolio's sensitivity to market movements relative to a particular index; a portfolio with a beta of 1.00 would be expected to have returns equal to such index.

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