

What Have You Done For Me Lately?

By Gary Case

Investment vehicles often attempt to gain your attention by flashing eye-popping performance figures. Although the figures are most likely accurate, statistics can be manipulated to show a predetermined outcome rather than a more complete picture of investment performance.

For instance, a particular investment may have increased in value dramatically during the second quarter of this year. Instead of relying solely on one quarter's performance, it might be interesting to look a bit further back to gain additional perspective on the performance of that investment. It could be that the very same investment lost a substantial portion of its value during the first quarter of this year, let alone performance last year.

There are numerous technical measurements of performance, volatility, and other components of how various investments relate to one another; however, many of those measurements are relative in nature. During the market decline from October 2007 through March 2009, even many strong relative performance measurements failed to equate to positive returns for your portfolio.

I would suggest that you consider an absolute performance measurement such as “did my portfolio have a positive return during the timeframe I am reviewing?” Two statistics I find helpful in reviewing the performance of investments is the “Down Market Capture Ratio” and the “Up Market Capture Ratio”. These ratios measure how much your investment lost (or did not lose) in a market decline or how much it gained in an up market relative to a chosen benchmark. Some investments are beginning to display these ratios, but you can devise your own.

One benchmark could be the movement in the S&P 500 index, which is widely published. To develop your own capture ratio, simply compare the percentage advance or decline on your investment to that of the S&P 500. A positive number in an up market and a negative (or a number close to zero) in a down market means your investment outperformed the S&P.

Coupling an absolute return metric with the capture ratios can give you a good idea of the performance of your investment. Your financial advisor should be able to assist you in evaluating performance. However, carefully consider if you are willing to accept just recent performance or performance relative only to a benchmark as acceptable. Absolute positive returns put food on the table, relative returns do not.

Gary Case, CFP®, Cornerstone Financial Planning, 917 2nd Street South, Nampa, 466-1971, is a Registered Representative of Cambridge Investment Research, a Broker/Dealer (Member FINRA/SIPC) and Investment Advisor Representative of Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Cambridge and Cornerstone are not affiliated. This column is for informational purposes only and should not be used as the primary basis for an investment decision. Consult an advisor for your personal situation.