THE BENCHMARK INDEX

"How are my investments doing?". Asking this simple question can trigger a variety of responses from the person you have managing your money, depending upon the actual performance. Commonly this question strikes fear into the hearts of advisors, as more often than not, the investment they have you in is underperforming. Most of us do not want to settle for average returns, but if we don't know what average is, how can we make an informed decision? The question then becomes, "What is it underperforming, and how do I make sense of it?".

The most common way of determining how your investment is performing is to compare it to what is called the benchmark index. Consider a benchmark to be like the high jump bar that you want to get over. Depending upon the strategy and your risk tolerance level, there is normally a benchmark to compare it to. (For the purposes of this article, we are going to assume we are looking at wanting to grow our money). The most commonly used benchmarks come from a company called Standard and Poor's, also known as the S&P. The most widely compared benchmark is the S&P 500, which is an index of the prices of 500 large cap common stocks actively traded in the United States. Many mutual funds will have it as their goal, or mission statement, to outperform the S&P 500.

Why is this benchmark important to you? Mainly, it gives you a quick reference to see how well your investment is doing. Mutual fund companies charge what is called a Management Expense Ratio (MER) for each fund that they have. This expense differs from fund to fund. The belief is that an actively managed fund will outperform the benchmark index, as the fund managers are using their skill and expertise to buy and sell stocks inside the fund at appropriate times to maximize the potential for the fund. Remember, it is their goal to outperform, and they can't do that by mirroring the index itself. The problem is that most funds don't beat the benchmark, but yet you are still paying them to do so. In the most recent data found, the S&P 500 benchmark index beat 71.9% of U.S. actively managed large cap funds. Those percentages get even worse when you start looking at small caps, bond funds, emerging markets etc. Now, don't get so depressed so easily! This also means that 28.1% outperformed the benchmark, so there are funds out there that can be invested in to get those above average rates of return you are looking for.

A friend of mine who was in the investment industry once told me that he had a client who fired him for only returning him 7% one year. The interesting part is that during that same year, the benchmark was down over 20%, so his client's investments had actually outperformed by over 27%. The funny part is this client was so mad about this "poor" performance that he was loudly complaining to an associate of his about how badly my friend had done, and this associate immediately asked for my friends number, as his

advisor had lost him over 30% over the same period of time. My friend signed his single biggest account that next day.

Most of the people that I talk to really haven't heard much about the benchmark before, as most of them have never had their advisor talk to them about it. The question then becomes, why isn't my advisor discussing this with me? Chances are your investment is underperforming, and he/she doesn't want to mention it because then they will likely lose you as a client. Maybe it's time to have a heart to heart with your advisor, or maybe it's time to make a change.

Brian Livingston
CEO
AWIN Life and Financial
Creating Solutions That Make Cents For YOU!
Brian.l@awinins.ca
(403) 457-4065