How Am I Doing?
Putting Your Investment Performance into Perspective

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Reviewing your investment performance over time is important in determining if you’re on track to reach your financial goals. But before you can evaluate your performance, you first need to determine the return you need to help achieve your objectives.

The Challenges of Comparing Performance to a Market Index

Some investors may compare the returns on their investments to a broad index, such as the S&P 500, and then question why they might be “underperforming” or “outperforming” this index at certain times. Though these indexes can provide insight into the general performance of stocks and bonds overall, they are usually not a relevant comparison to your own personal performance.

• A market index is not based on your goals or your comfort with risk. If your goal is to produce income for retirement, you’d likely allocate a larger portion of your portfolio to fixed income. Therefore, it wouldn’t be appropriate to compare your returns to those of a stock index.

• Indexes are generally not diversified across different types of investments. This means they often can have wider swings in value. And to achieve the extreme highs of an index, you must also be willing to accept the extreme lows.

• Your performance will be affected by your contributions and withdrawals, while the published market returns are not. This is also why controlling our emotions is important, as we discuss toward the end of the report. There are also expenses and fees with investing, and the index performance typically does not include these costs.

Ultimately, your actual investment return should be compared to the return necessary to help achieve your financial goals.
Your Return Expectations Should Be Relevant
First and foremost, your return expectations should be relevant – meaning that they should be based on your specific goals. These goals should be established by working with your financial advisor to determine your financial goals and your comfort with risk. When you’re unsure of what you’re aiming for, it can be difficult to know if you’re on target or if adjustments need to be made.

Once you’ve set your goals – for example, retiring at age 60 or helping fund half of your child’s college expenses – work with your financial advisor to determine the return you’ll need in order to achieve them. Then, when you’re evaluating your performance, your actual return should be compared to this return – the return you need to help achieve your goals, not the market’s return.

Your Return Expectations Should Be Realistic
While most people want to earn very high returns with minimal risk, this is unrealistic. In general, your portfolio’s return will depend on several factors, including the market environment, your asset allocation (your mix of investments) and your investment holding period.

- **Market Environment** – Consider your return expectations in light of the long-term outlook for economic growth, corporate profits, inflation and interest rates. Our long-term return expectations are 6% to 8% for U.S. stocks and 3% to 4.5% for fixed-income returns. However, as market conditions change, these outlooks also can change. So it’s important to review this outlook periodically.

- **Asset Allocation** – Your allocation across different asset classes (like equity or fixed-income investments) can be the most important factor in how your portfolio performs over time. Because your portfolio will probably include a mix of different types of investments, your expected return should be a blend of our expectations for each.

Your asset allocation should also align with your goals and your comfort level with risk. For example, the greater the return you need to meet your goals, the more you should consider investing in stocks. But risk and return go hand in hand – so the more you invest in stocks, the higher the risk (or chance for higher volatility) you’ll take on.

Here’s where it’s time for a reality check: If you want higher returns but don’t want to take on more risk, you need to make some important decisions about trade-offs. The risk/return trade-offs for six different Portfolio Objectives are illustrated in the following chart.

### Potential Long-term Average Annual Returns for Different Portfolio Objectives Based on Current Market Assumptions

<table>
<thead>
<tr>
<th>Less Potential Risk</th>
<th>More Potential Risk</th>
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<tbody>
<tr>
<td>Income Focus</td>
<td>20% equity/80% fixed income 4% to 6% return</td>
</tr>
<tr>
<td>Balanced toward Income</td>
<td>35% equity/65% fixed income 4.5% to 6.5% return</td>
</tr>
<tr>
<td>Balanced Growth and Income</td>
<td>50% equity/50% fixed income 5% to 7% return</td>
</tr>
<tr>
<td>Balanced toward Growth</td>
<td>65% equity/35% fixed income 5.5% to 7.5% return</td>
</tr>
<tr>
<td>Growth Focus</td>
<td>80% equity/20% fixed income 6.5% to 8.5% return</td>
</tr>
<tr>
<td>All-equity Focus</td>
<td>100% equity/0% fixed income 6% to 8% return</td>
</tr>
</tbody>
</table>

Source: Edward Jones. These return ranges are based on the firm’s long-term capital market assumptions and are not guaranteed. In addition, return ranges incorporate our return expectations for both domestic and international equities and do not include any taxes or fees.
• **Investment Holding Period** - Even though you might expect a Balanced toward Growth portfolio of investments to average a 5.5% to 7.5% return over the long term, you shouldn’t expect those returns every year. That’s because the market rarely has an “average” year. In fact, although the stock market (as measured by the S&P 500) has averaged about 11% in its more than 80-year history, only five times did it return between 8% and 12% in a single year.

### The Importance of a Long-term Focus

<table>
<thead>
<tr>
<th>Rolling Period</th>
<th>100% Stock Portfolio</th>
<th>65%/35% Stock/Bond Portfolio</th>
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<tbody>
<tr>
<td></td>
<td>Odds of Positive Return</td>
<td>Lowest Average Return for the Time Frame</td>
</tr>
<tr>
<td>1-month</td>
<td>62%</td>
<td>-30%</td>
</tr>
<tr>
<td>1-yr Avg</td>
<td>75%</td>
<td>-68%</td>
</tr>
<tr>
<td>5-yr Avg</td>
<td>87%</td>
<td>-17%</td>
</tr>
<tr>
<td>10-yr Avg</td>
<td>94%</td>
<td>-5%</td>
</tr>
<tr>
<td>15-yr Avg</td>
<td>99.8%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>20-yr Avg</td>
<td>100%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Morningstar Direct. The hypothetical portfolios consist of 100% stocks represented by the S&P 500 Total Return Index, 65% stocks represented by the S&P 500 Total Return Index and 35% bonds represented by the Intermediate-Term Government Bond Index. The hypothetical portfolio is for illustrative purposes only. Results may vary for an individual portfolio with similar holdings. Indexes are unmanaged and are not available for direct investment. Past performance of the market is not a guarantee of how they will perform in the future. Investing in stocks involves risk. The value of your shares will fluctuate, and you may lose principal. The prices of bonds can fluctuate, and an investor may lose principal value if the investment is sold prior to maturity.

While short-term returns can fluctuate, the table above shows that, in general, the longer you own your investments, the higher likelihood your returns will be positive, and the closer your return could be to the long-term average. The table also highlights the difference in volatility based on your asset allocation. While a greater stock allocation may lead to a higher long-term expected return, you should also expect more volatility, especially in the short term. So as you measure your portfolio’s performance, make sure to compare your return goals to your long-term performance, not just one particular quarter or year.

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**Your Return Objectives Should Be Reviewed**

You and your financial advisor should conduct a thorough review of your portfolio and financial position, including your personal rate of return, at least annually. Regular performance reviews over time can help determine if you’re making progress toward achieving your financial goals.

As you review your performance, you may confirm everything is going according to plan. If not, you may decide to make some changes, such as:

- Rebalancing your portfolio – bringing your investments back into alignment with your objectives and tolerance for risk
- Adjusting your asset allocation to align with changes to your goals

Remember, performance can be volatile in the short run, so decisions should be based on changes in long-term expectations and not in reaction to short-term fluctuations.

While reviewing your performance is a critical step, it’s only part of the overall review process. You should also review your overarching goals and objectives, as any changes to these could influence your return objectives. This could also mean adjusting your saving or spending - or potentially working longer - in order to get you where you need to be.

Only by understanding your goals and objectives, and how they can change over time, can we put the performance discussion in the proper context in order to make any recommended changes.
Your Role in Your Portfolio’s Performance

One of the biggest obstacles to reaching our long-term goals isn’t investment performance; it’s our own actions. Investors tend to overreact to short-term market volatility and chase performance – buying investments that recently performed well and selling those that didn’t – instead of sticking with their long-term strategy.

According to a DALBAR study, chasing performance has been a recipe for underperformance, as the average investor’s portfolio performed much worse than the S&P 500 overall. This didn’t happen because investors owned the “wrong investments” but because they chased performance – they bought investments when they were up and sold after they dropped in value. Tracking and reviewing performance is important, but it can be a double-edged sword.

Be careful not to let short-term swings, and your emotional reaction to them, get in the way of achieving your long-term goals.

Chasing Performance Leads to Underperformance
(Average Annual Returns 1/1/1995–12/31/2015)

How Are You Doing?

We recommend reviewing your goals and objectives with your financial advisor at least once a year, as well as when there are changes to your personal situation. Your financial advisor can help you review your current performance in the context of your long-term goals and our expectations for future performance. More importantly, you’ll review how that performance affects progress toward your long-term goals, and if any changes need to be made to keep you (or put you back) on track. Ultimately, the best way to measure performance is by comparing it to the progress you have made toward reaching your financial goals.

Source: DALBAR, QAIB 2016. Annualized return for the past 20 years ending 12/31/2015. The Equity benchmark is represented by the S&P 500. Returns do not subtract commissions or fees. This study was conducted by an independent third party, DALBAR, Inc. A research firm specializing in financial services, DALBAR is not associated with Edward Jones. Past performance does not guarantee future results.