How to evaluate your returns, apple by apple

For many investors who study the daily financial sections, the columns marked YTD %RET or 3-YR %RET, and so on, are the Rosetta stones of portfolio performance. It would seem raw returns tell the story, for better or worse.

But professionals know that accurately evaluating performance involves much more than looking at how much you started with and how much you've got now.

For example: how much did your returns cost you in terms of fees? (See our article on Fees.) Sales charges, trading commissions and fees can take a hefty bite directly from your bottom line not reflected in the returns column.

Investors also should consider portfolio relativity. Don't worry, we're not talking about Einstein here, just a straightforward process of making sure you compare apples to apples, instead of tangerines.

This is where market benchmarks come in.

Without a comparison or benchmark, absolute returns would be utterly meaningless. If you have no idea how anyone else's similar-style investments are doing, how can you know whether your own returns are relatively good, mediocre or even abysmal? The key is to evaluate similar-style investments. If you own a broadly-allocated portfolio, with perhaps a dozen differently-weighted asset classes, then it hardly makes sense to compare your returns against an energy equities fund or for that matter any individual stock or stock sector.

Thus portfolio performance is relative. By comparing your performance against a relevant market index you can accurately judge whether you are doing better than most, about the same, etc., as others in the same category (i.e., aggressive, balanced or conservative).

In the case of Via Four portfolios, considering their very broadly diversified composition, the most relevant index-benchmark is the widely accepted Standard and Poor's 500. This market-weighted index tracks the combined performance of 500 leading companies across virtually every sector of American enterprise.

The vast majority of investment professionals consider the S & P 500, and not the oft-quoted Dow 30, the most timely and accurate reflection of where the United States stock market stands.

Finally, it's worth mentioning one other apples-to- tangerines misperception in evaluating returns – this relates to time horizons. Individual investors' time horizons are correlated to human life span, obviously. But enormous pension funds and institutions are, so to speak, immortal. They have potentially infinite investment time horizons, far longer than even the life spans of their managers.

For this reason, the "Big Money" endowments and funds often engage in exotic, exceedingly risky or long-term strategies which no reputable Advisor would ever recommend for an individual.

So don't succumb to "portfolio envy." While it can be instructive and useful to study the performance of such perennial powerhouses as the Yale Endowment Fund, keep in mind the admonition from its manager: "Don't try this at home."