



Scarlet Oak Financial Services

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Understanding Benchmarking





Benchmarking

What is benchmarking?

Benchmarking is a way to measure the performance of your investment portfolio against certain models. Although you can use something like the latest 10-year Treasury note as a benchmark for all treasuries, benchmarking usually involves comparisons to standardized indices. Some of the best-known and most reliable stock indices include the Standard & Poor's 500, NYSE Composite Index, Nasdaq Composite Index, the Wilshire 5000, and the Russell 2000.

Why benchmark?

Benchmarking allows you to assess the performance of an investment relative to comparable investments. That way, you will be able to tell whether your investment did better, worse, or about the same as a typical investment of a similar kind. You can then determine whether you need to make changes to your portfolio.

For example, if you are invested in a growth mutual fund that gave you a 7 percent average annual return over the past three years, you might refer to an index to see whether that is in fact an appropriate return. If you find that similar growth funds as a whole provided an average annual 10 percent return over the same period, you might want to consider switching to a different growth fund whose results are closer to those of the benchmark.

Benchmarking also can be useful in down markets. If your fund is down by 7 percent but the benchmark average is down by 10 percent, your fund has actually outperformed its peers and may still be a worthy investment.

Caution: It is important to bear in mind that past performance of any benchmark or any specific investment is no guarantee of future results. Benchmarking should be used only to determine the relative performance of your investments.

Determining appropriate benchmarks

It is very important that you select the appropriate index for comparison to your own portfolio. The index you choose should include investments that are as similar to the one you're tracking as possible, and you should understand any differences between the index and your portfolio. Otherwise, you may be comparing apples to oranges, and the comparison may not be valid. For example, comparing a large cap stock fund to the Russell 2000, which is composed of small-cap stocks, is less useful than comparing it to, say, the Standard and Poor's 500 index.

To schedule an appointment with Faye Sykes, click [here](#) .

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