

# Benchmarks help you manage your investment expectations

How well are your investments living up to your expectations? Are your expectations reasonable? One of the best ways to answer those questions is to compare the performance of your investments to a *benchmark*, or *index*.\*

Benchmarks help keep your returns in perspective. For instance, suppose that your investment brought an x% return in a particular year. You might feel rather pleased about how you're doing, until you compare with other investments that you could have made and find that several of them gained "x" plus.

## **The most commonly referred-to benchmarks**

- *The Dow Jones Industrial Average (DJIA)* is the oldest of the benchmarks. Created by Charles Dow in 1896, it began with 11 companies. Today the DJIA tracks 30 large-capitalization ("blue chip") companies, considered to be the leaders of the economy. Although the Dow is reported everywhere, all the time, it is not an indicator of the market in general but is really only a reliable benchmark for a fund invested in blue chips.

- *The Standard & Poor's 500 Composite Stock Index (S&P 500)* after the Dow is the most widely watched index of large-cap U.S. stocks and is considered to be a bellwether for the economy. The S&P 500 is used widely as an indicator of the broader market because of the inclusion of both growth and value stocks. Although it includes many large companies, the S&P 500 is not just the 500 biggest. Companies are selected to be representative of various U.S. industries.

- *The Nasdaq Composite Index (Nasdaq)* is an acronym for the National Association of Securities Dealers Automated Quotation system) covers a great many more stocks than the S&P 500—over 3,200 to be exact. It includes the stocks of companies that are leaders in all areas of business, including technology, retail, communications, financial services, transportation, media and biotechnology.

- *The Russell 3000 Index*, produced by the Frank Russell Company, is an index of the 3,000 largest U.S.-based companies. It lists these companies in descending order by market capitalization. From that base the firm derives the Russell 1000 Index, the top 1,000 large-cap companies on the list, and the Russell 2000, the 2,000 smaller-cap companies.

- Two other useful indices are: (1) the *Dow Jones Wilshire 5000 Stock Market Index*, a broad-based stock market index often used to represent the entire U.S. stock market, measuring the performance of all public companies with “readily available data,” and (2) the *Shearson Lehman US Aggregate Bond Index*, which tracks the overall bond market, including bonds issued by the U.S. government and its agencies and by leading corporations.

### **Interpret cautiously**

Knowing what the benchmarks comprise is one thing; knowing how to interpret them is another.

Upward and downward movements in terms of pure numbers can be deceptive. It’s better to think in terms of percentages. For instance, a 12-point move carries little significance in a 12,000+ DJIA (a 0.1% change), but is almost a 1% change in a 1,200 S&P.

For long-term investors, moves such as these should carry little weight. Rather, consider what you learn from benchmarks to be data to keep you informed on a daily basis of what the markets are doing and how, by comparison, your own investments are performing, but not as a reason alone to make a particular move.

### **A recommended course of action**

Of course, examining benchmarks isn’t the end of the story. A sound investment strategy that takes into account your personal goals, circumstances and needs is essential.

We would be glad to schedule a portfolio “checkup” with you. Please feel free to contact us at your earliest convenience.

\*All indices are unmanaged. Investors cannot invest directly in any index.

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