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Insights & Opinions
Q4 2016

What Is *YOUR* Benchmark?

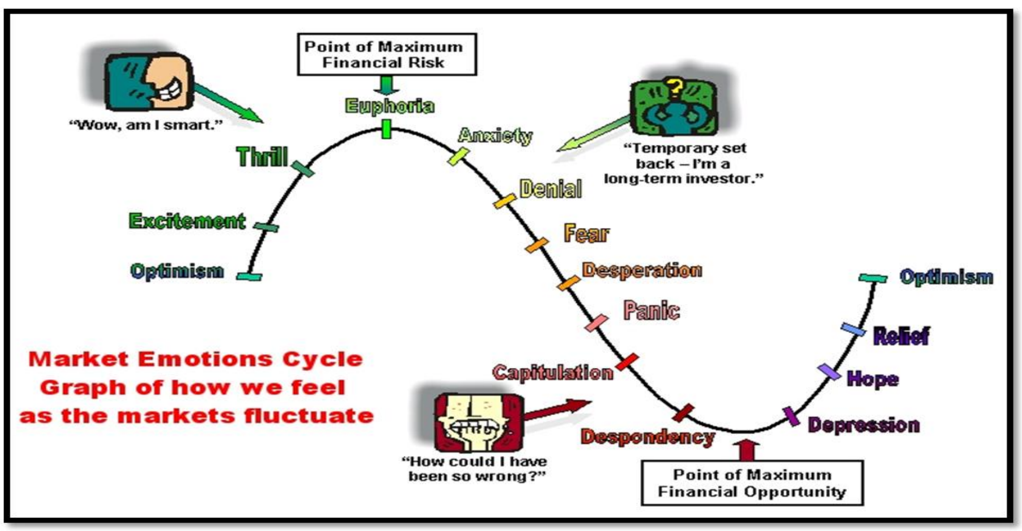
by

By Robert Standish, JD, CFP®, Director of Financial Planning

In many regards 2016 was quite a year. And as we consider how the markets fared compared to consensus forecasts from the end of 2015, you may recall the likes of JP Morgan opining that “we may see 6.5% from the equity markets…” Then we had the January sell off, and a summer “Brexit”, followed by the presidential election. The S&P 500 was up 11.96% for 2016. After almost nine years investors were once again watching equity markets rise in value and asked, “Why don’t I have more of that?” We witnessed a strong shift in investor confidence, and even perhaps a measure of regret and inflated confidence, as domestic markets entered a seventh year of the current bull market.

The pendulum swings...

The last time we referred to the below chart, it seems investors were generally at the point of “capitulation”, and now, as evidenced by fund flows and general investor comments, we have entered the “excitement/thrill” stage of the investor emotion cycle. So as we consider what could have been if we were over-weighted to the S&P 500, Dow Jones 30, or heck, the Russell 2000 (i.e., small company stocks - these were the best performers for the year, up over 18%), we are fond of assessing “the numbers” and asking, “How did we do last year?”



Why are the January 1st through December 31st returns sacrosanct? It is rather an arbitrary demarcation of a period, don't ya think? For example, if we take a sampling of our BPU Global 60 portfolio (60% equities), we see in one instance the 1-year return for 2016 was 6.5% *gross* of fees. However, if we look at the 12-month figure (same length - 365 days) ending on January 13th, 2017, the portfolio *gross* return is 13.08%. The equity portion of the portfolio (i.e., the 100% equity allocation) returned 18.61% *gross* of fees over the same time period. In this scenario, changing the performance period by two weeks resulted in doubling the portfolio return.

Now you may say we could make performance figures look better by selectively choosing or "cherry picking" the best 12-month performance numbers. However, I would ask, "To what end?" "Why would an investor presume the one-year return is any more important, or relevant to you, than another 12-month return?"

What is *YOUR* benchmark?

How did we do? Again, "compared to what, exactly?" What number exactly is important to you? Is it the performance of one asset class, a portfolio, or some other measure? There are no shortages of investment indices and benchmarks, and we can compare the performance of a portfolio against any of these benchmarks. But, again, I ask, "What does this mean relative to *your* benchmark?

Our wealth management clients understand that our asset allocation decisions emanate from the unique needs of each of our clients. In short, what is the required rate of return to meet *your* needs? Based on *your* tolerance and capacity for risk, along with other planning factors, we implement an investment strategy designed to meet the needs of our clients, within the risk parameters we defined at the inception of our relationship.

As we consider what number is most important, it is *your* benchmark: *your* required rate of return necessary to meet *your* goals. From a financial planning perspective, we generally assume that this number is a 3% return over inflation. For the client who experienced 6.5% in 2016, or 13% over the past 12 months while inflation increased 1.2% in 2016, their return over inflation was 5.3% to 11.8%. Naturally, *your* experience is likely different; however, my point is that we should remain focused on *your* benchmark, and how you are progressing toward *your* goals.

So, how are we doing? Undoubtedly 2017 will offer unforeseen events that will have us scratching our heads in December. Consequently, let's focus our attention on the measures related to *your* specific goals, and our energies on the things we can control. With this focus, we work together to help you realize and be fulfilled by the things in life that are most important to you.

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Russell 3000 is a market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S.

The Standard & Poor's 500 Index (S&P 500) is widely regarded as the best single gauge of the U.S. equities market. This world- renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy.

BPU Investment Management, Inc.
One Oxford Centre
301 Grant Street. Suite 3300
Pittsburgh, 15219
412-288-9150
www.bpuinvestments.com