So, How are Your Investments Doing?

One way to answer this question is to evaluate your investments objectively using industry-standard performance benchmarks. A benchmark is a **market index** or **average** that allows you to compare the performance of your **stocks, bonds,** or **mutual funds** against *similar* investments. Here are some of the most well-known and widely used investment benchmarks:

Stock Benchmarks

Dow Jones Industrial Average (DJIA). The oldest and most widely quoted market indicator. It reflects the price-weighted average of 30 actively traded **blue chip stocks,** mostly **industrials,** which generally represent 15% to 20% of the New York Stock Exchange (NYSE) total market value. (In a price-weighted index, higher priced stocks carry more weight than lower priced issues.) The mix of individual stocks changes occasionally but not radically.

The NYSE Composite Index is designed to measure the performance of all common stocks listed on the NYSE, including ADRs, REITs and tracking stocks. In January 2003 the NYSE reintroduced the NYSE Composite Index under a new methodology that is fully transparent and rule-based. Under the new methodology, all closed-end funds, ETFs, limited partnerships and derivatives are excluded from the index. As of year-end 2004, the NYSE Composite consists of over 2,000 U.S. and non-U.S. stocks. It is a measure of the changes in aggregate market value of all NYSE-listed common stocks, adjusted to eliminate the effects of capitalization changes, new listings and delistings. The index is weighted using free-float market capitalization and calculated on both price and total return basis. [1]

Standard and Poor's 500 Index (S&P 500). A market value-weighted index that reflects changes in the aggregate market value of 500 stocks compared to the base period of 1941–1943. The S&P 500 consists mainly of NYSE industrials, although it also includes transportation, utility, and financial stocks traded on the American Stock Exchange (AMEX), as well as over-the-counter (OTC).

Bond Benchmarks

Moody's Investors Service. One of the two best known bond rating agencies in the country. Moody's rates **publicly-held corporate** and **municipal bonds,** as well as many Treasury and government agency issues. It provides substantial detail on the issuers and the securities.

Standard & Poor's. The other well-known bond rating agency, Standard & Poor's, classifies bonds (and stocks) into a number of grades according to risk. These are further grouped into two broad categories: **speculative,** in which institutions with fiduciary responsibility are not allowed to invest, and **investment grade**.

Mutual Fund Benchmarks

Indexes. Mutual fund indexes exist for different types of funds. For example, the Value Line Index covers aggressive growth funds; the Russell 2000 Index applies to small capitalization stocks; and various Lehman Brothers indexes cover government, corporate, and municipal bonds.

Investment Advisory Service Rankings. *Morningstar* is an independent mutual fund rating and analysis service that measures risk and compares the long-term performance of over 2,000 mutual funds. It uses a star system to rate performance based on a fund's risk and on how it performed compared to other funds in its investment category. The Value Line Mutual Fund Survey and Lipper Mutual Fund Rankings also rate mutual funds.

Peer Group Rankings. Mutual fund peer groups rank the performance of funds with similar asset classes, risk levels, and investment objectives. Funds are generally grouped according to their investment goals. Each fund is then ranked according to selected criteria, such as risk, risk-adjusted return, or five-year total return. The top 20% receive the rank of "1," while the bottom 20% are ranked as "5."

Published Rankings. Many business magazines, newspapers, and newsletters, such as *Forbes, Fortune, Business Week,* and *Money* periodically analyze individual funds and publish the rankings.

Industry standard benchmarks provide a means for comparing the performance of *your* investments to the market. Once you become familiar with the appropriate indexes and rankings, you will have a better handle on how your investments are doing and if *now* is the time to implement a new investment strategy.

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