# Advisor Views

A feature from **The Money Advisor Group.** *Advisor Views* offers timely investment news and market updates designed to keep you informed, while enhancing your overall investment experience.

## Your Portfolio and the S&P 500 Index: Compared to What?

Among the frequently asked questions we hear from clients still familiarizing themselves with our investment strategy is: "Why do my returns differ so much from the returns of the S&P 500 Index?"

Since the S&P 500 is one of the most popular gauges for how "the market" is doing, it's tempting to assume one's own portfolio should always perform at least as well as this well-known benchmark. But is it a fair comparison?

First, it's important to note: Even though it's commonly used as a quick-reference proxy for it, the S&P 500 Index is not "the market." As its name implies, the S&P 500 tracks 500 of the largest U.S. company stocks. And that's all it tracks. In contrast, via mutual funds or Exchange Traded Funds (ETFs), our clients' balanced portfolios typically comprise between 5,000 and 12,000 securities from nearly 50 countries around the globe.

Thus, "the market" in which we invest is a whole lot bigger than the S&P 500. If you try to compare the entire market, or a particular component of it (such as international small company stocks), to the S&P 500, you're in many ways comparing an apple to an orange.

Why don't we simply build portfolios to capture the long-term growth of the S&P 500 Index? The long-term returns haven't been so bad: about 10 percent from 1970–2010.[1] And it would offer more certainty over where you stand, at least compared to this common benchmark.

The thing is, we have better things in mind for you:

### It's about you, not the market.

At its essence, we believe that investing is a tale of risk, and your specific goals in the face of that risk. The more market risk you accept, usually, the higher returns you can expect over time. But the risk is very real; not everyone is suited for it. Are you just starting out with time on your side? Are you in or near retirement, seeking to preserve what you've achieved? During the Great Recession, did you tolerate the risk, or panic and sell low? We believe your personal goals and risk tolerances — not the S&P 500 Index—should drive the components in your portfolio.

### Tracking an index, and then some.

While investing in funds that track certain indices may be a beneficial strategy depending on one's needs, we believe that investing in portfolios that more directly target the systematic returns that markets provide can offer additional value. When using these types of investments, your end returns may be an even more accurate representation of how various components in the markets have actually performed – such as stocks vs. bonds, large vs. small company stocks, domestic vs. international, etc.

### Diversification is your friend.

By diversifying your investments beyond the S&P 500, we believe that you benefit in at least two ways: First, a broadly diversified portfolio allows you to spread the equity risk across many different asset classes that may include domestic, international, and emerging market securities, as well as growth and value stocks, while an allocation to shorter-term, higher quality bonds can help to mitigate volatility. Additionally, by blending various asset classes and risk levels into a cohesive portfolio that's a good fit for you, you may be better positioned to stay on track toward your own long-term goals.

In short, we believe that investing is about clearly defining your personal financial goals and custom-crafting a portfolio to best help you achieve them. Your portfolio should have an appropriate (for you) globally diversified mix of risk and expected returns, and be tightly managed to help minimize unnecessary expenses. As far as the S&P 500 Index goes, remember: "the norm" isn't always what it's cracked up to be.

## THE POWER OF PASSIVE FOR YOU

[1] Dimensional Fund Advisors, "The Benefits of Stock Diversification," www.dfaus.com/philosophy/diversification.html, accessed January 14, 2013.

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The S&P 500 Index measures the performance of large cap US stocks.

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