

THE STAN CLARK FINANCIAL TEAM'S

P E R S P E C T I V E S

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Asset Allocation

BENCHMARKS: HOW DO YOU KNOW HOW WELL YOU'RE DOING?

By Michael Chu, Senior Wealth Advisor

In any area of life, it's important to know how well you are doing. But how can you *objectively* know this? Benchmarks or comparisons are useful tools, whether for tracking your fitness levels, your kids' report cards or your investment portfolio.

At the Stan Clark Financial Team, we regularly provide performance reports on your investment portfolio. These reports show how your portfolio has grown – and also compare it to relevant benchmarks. But keep in mind that there are no perfect benchmarks. It depends on what you are trying to do.

We can include mainstream benchmarks like the TSX Composite or the S&P 500 index returns. But while TSX and S&P are often used, they aren't always the best or fairest comparisons. If your portfolio is not invested 100% in Canadian or U.S. stocks, then comparing to it the 100% Canadian stock TSX Composite or the 100% U.S. stock S&P 500 would be like comparing apples to oranges.

What we do is take it a significant step further. We provide a benchmark customized to you.

Let's use a real-world example. Our AMA World portfolio is geographically broken down about 40% in Canada, 40% U.S., 13% EAFE (Europe, Australasia and Far East) and 7% emerging markets. So, instead of comparing to an index that is only TSX (Canada) or only S&P 500 (U.S.), we'll combine the relevant indexes to make it fair and useful. In this case, it would be 40% TSX, 40% S&P 500, 13% MSCI EAFE and 7% MSCI Emerging Markets indexes. Now we're comparing apples to apples.

So far, that's just the stock side of the custom benchmark. We also factor in your asset mix. Let's say your target mix is 70% in stocks.

That means 70% of the custom benchmark will be as above and the remaining 30% will be fixed income. For fixed income, we use 50% Canadian treasury bills (T-bills) and 50% Canadian bond index.

Now we combine the equity benchmark and fixed income benchmark to get your final custom benchmark. This makes it a fair comparison and lets you see how you are doing relative to the markets. Over the years, if your mix changes or our model changes, we will make the necessary changes to the benchmark as well.

That being said, common indexes don't always tell the full story and might not be as fair as they seem. For example, sometimes the index doesn't truly represent the average stock market performance because of weighting methodology. It's important to keep this in mind. Nevertheless, the benchmarks are still very useful.

Here's some of the math using last year's index returns. Starting from the left, we have the index returns. Next we multiply them by the allocation. Finally, we combine the results using your asset mix to get your own customized benchmark. And now you can see how you're doing.



Michael Chu is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

Mainstream index returns	Your portfolio				
	Equities breakdown				
TSX	11.8% x Canada	40% =	4.7%		
S&P 500	23.5% x U.S.	40% =	9.4%		
MSCI EAFE	15.7% x EAFE	13% =	2.0%		
MSCI Emerging Markets	7.7% x Emerging Markets	7% =	0.5%		
			16.7% total equities	x	70% equities = 11.7%
	Fixed income breakdown				
T-bills	4.9% x T-bills	50% =	2.5%		
Canadian Fixed Income	6.7% x Canadian Fixed Income	50% =	3.4%		
			5.8% total fixed income	x	30% fixed income = 1.7%
					Your total benchmark 13.4%

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The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: 604 641-4361 | Toll-free: 1 800 661-9442 | Fax: 604 608-5211 | Email: stanclarkfinancialteam@cibc.ca | www.stanclark.ca

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