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# Performance Benchmarking

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## **What is benchmarking?**

Benchmarking is a way to measure the performance of your investment portfolio against certain models. Although you can use something like the latest 10-year Treasury bond as a benchmark for all treasuries, benchmarking usually involves comparisons to standardized indices. The best-known and most reliable of these indices include Standard & Poor's 500, NYSE Composite Index, Nasdaq Composite Index, Value Line, Wilshire 5000, Russell 2000, and Lipper Analytical Services.

## **Why benchmark?**

Benchmarking allows you to track the performance of your investments through comparison to one or more indices. That way, you will be able to tell whether your investment did better, worse, or about the same as a typical investment of a similar kind. You can then make any changes to your portfolio that you think might improve its performance.

For example, if you are invested in a growth mutual fund that gave you a 7 percent return over the past year, you might refer to an index and find that growth funds provided an average 10 percent return over the same period. In such a case, you might want to consider switching to a different growth fund that more closely matches the benchmark.

Caution: It is important to bear in mind that past performance of any benchmark or any specific investment is no guarantee of future results. Benchmarking should be used only to determine the relative performance of your investments.

## **Determining appropriate benchmarks**

It is very important that you select the appropriate index for comparison to your own portfolio. The index you choose should track investments that are as similar to your own as possible, and you should understand the differences between the index and your portfolio.