



EVALUATING AN INVESTMENT PORTFOLIO

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The evaluation of an investment portfolio on a risk-adjusted basis is one of the least understood and often overlooked parts of the investment process. It is natural to simply scan a portfolio's returns to see if it is performing well; however, this is only one part of portfolio evaluation. Consideration of the risk taken to achieve those returns can provide a better understanding to evaluate how it may perform in the future.

BENCHMARKS

Before looking at a portfolio's risk and returns, it is important to identify a point of comparison. A benchmark can provide a standard, or point of reference, in measuring how well a portfolio has performed. It is important to select a benchmark appropriate for the portfolio. The benchmark should be consistent with the objective and risk tolerance of the investor. The use of broad market indexes work well, as they are easy to understand, well-recognized, and fairly simple to compare to the composition of a portfolio.

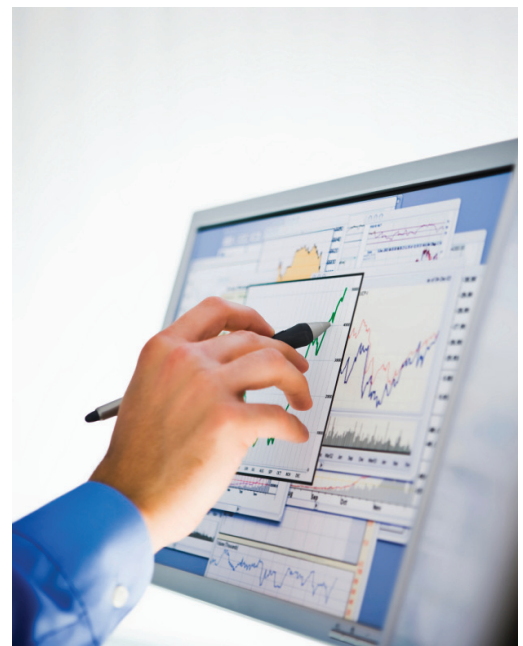
DIGGING DEEPER

To review a portfolio, Vantage Investment Managers first consider the individual investments prior to evaluating the portfolio as a whole. We look to see whether they have done better than equivalent investments, and also compare how they've done in respect to their individual benchmark. When this is complete, we examine how these investments achieved their performance.

For example, when looking at a mutual fund that invests in international stocks, we note the manager has outperformed most of his/her peers and the fund's benchmark. However, as we 'look under the hood' we may find the fund has invested in areas outside of what is normally expected of a fund of this type. It may be revealed that some fund managers have increased risk in order to obtain higher returns. This additional risk could have a significant effect on the fund's return in the future. This doesn't mean this type of fund shouldn't be used, but its risk must be understood before its inclusion within a portfolio.

RISK MEASUREMENTS

Just as an investment shouldn't be evaluated on performance alone, neither should a portfolio. Risk, as it pertains to investment portfolios, is the recognized chance the portfolio will produce a return less than what is anticipated. A popular measure for this is standard deviation. A portfolio's standard deviation helps us measure how much its returns vary from its average annual return. In other words, a high standard deviation indicates the portfolio has tended to perform around a larger range of values. This can indicate the portfolio has a greater chance of not reaching the anticipated return.



To get an idea where a portfolio stands, we compare the portfolio's standard deviation with its benchmark's standard deviation. If the two measures vary significantly, the portfolio will require further investigation and may be adjusted. The danger of straying too far from the benchmark's characteristic risk and return is a reduction in the possibility the portfolio will accomplish its objective within its designated risk tolerance.

In addition, when any new investment is included in a portfolio, the entire portfolio's standard deviation is reviewed before and after this addition to consider how the new investment affects the overall risk objective of the portfolio. Interestingly, it is possible to include investments with a higher standard

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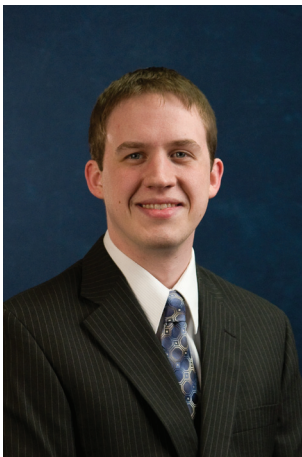
deviation than that of the portfolio and actually lower the overall risk of the portfolio. This occurs when an investment doesn't move in step with the stock and bond markets, unlike the other instruments within the portfolio (oftentimes referred to as an alternative investment).

Although there are many methods and considerations when evaluating a portfolio, attention to the components within the portfolio and their comparative measure against a recognized benchmark can provide a quality control check of the risk taken within a portfolio. The time and effort necessary to accomplish this may be significant, but it is a necessary process in order to accurately appraise the achievement of a portfolio and not just its returns.

Investment return and principal value fluctuate with changing market conditions. Portfolio evaluation will not alleviate or diminish investment risk including possible loss of principal.

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VANTAGE NEWS



DAN ZALIPSKI
Investment Associate

FAVORITE MOVIE: Ghostbusters (favorite quote "dogs and cats, living together, mass hysteria!")

FAMILY: Despite being in Ohio, they're always there when I need them – Love you Mom & Dad

PAST: I was once employed as a mover. To this day, when I visit a new place I'll size up the room and determine how difficult it would be to empty the room and get all the furniture outside.

SURPRISE US: I've competed in Martial Arts on a national level.

OUTSIDE OF WORK: I've taken up cooking as a hobby. I'm always trying new recipes and looking for new ways to keep dinner interesting.

AT VANTAGE: I like to be able to help a client, especially when their Relationship Manager is not available. When I'm able to handle a request they'd normally take to their RM, they seem pleasantly surprised to have yet another person at Vantage to whom they can turn.

Our team is comprised of many wonderful individuals. To get better acquainted, we will periodically feature one.