

As We See It

“If you don’t know where you’re going, you’re apt to end up somewhere else.”
— Yogi Berra

Markets continue at all-time highs, euphoria reigns, and the media showers us with up-to-the-minute market statistics. When flooded with information that the stock market is roaring, individuals naturally ask if their portfolio performance is keeping up. There is no shortage of media and experts helping to answer their questions. However, is *any* stock index the correct measure to determine an investor’s success? After all, stock indices only tell us how high (or low) stocks are trading at each moment in time, but offer no estimate of how well an individual investor is progressing toward their goals.

The crucial objective for any investor is to grow their assets at a rate that outpaces inflation and increases their spending power over time. Simply put, will the investor have more money to spend in the future by investing today? Ultimately, an investor is successful if they meet *their* goals—regardless of the success of the overall stock market.

Similar to the local businessman who owns a small group of businesses—whether real estate, bank, agriculture, or retail enterprise—his success is not measured against a stock market. His interests do not require a constant valuation or a comparison to a bucket of minor interests in hundreds or thousands of businesses. Rather, his goals are met by the success of the small group of enterprises he has hand selected, monitors closely, and benefits from over his lifetime.

The idea of continually comparing one’s own portfolio performance to the market works well when the market is behaving well, but not when it falls. If the market declines 10% in a year but an investor’s portfolio only declines by 5% the same year, will he be any closer to meeting his original objective? Similar to a traveler wanting to take in every sight on a trip, owning pieces of every possible investment may not offer the optimal route to get where they are going. Once the destination is determined and the coordinates set, progress is measured best by how efficiently and safely the traveler arrives at his destination.

By the same token, shouldn’t an investor measure their success by the progress toward their goal? If the ultimate objective is to grow assets at a rate that increases their spending power faster than inflation, the benchmark should measure exactly that. Many institutions have been adopting similar benchmarks, but individuals have been slower to come on board.

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