# The Fortnighter

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One thing that regularly gets discussed in the investment world (I hope) is performance, specifically portfolio performance. Of course, we all want our portfolios to do well – but how do we actually measure how we've done over time?

The traditional way to measure performance was called "time-weighted returns". This measured how well your assets performed over time – and it didn't matter how much you added or took out of your portfolio. If you were invested, you could see how you were doing against a "benchmark" – say the TSX composite index or S&P 500 index.

Turns out there's a new sheriff in town and it's called "money weighted returns". How it differs from time-weighted returns can best be seen in an example.

Let's say Susan has inherited $2 million (lucky Susan!). Susan is mortgage free, has no other debts and decides that she is going to invest this money for the long term. Susan is new to investing, so she doesn't want to commit the entire amount at once – she decides to proceed with a $1 million investment to start.

Lo and behold, the first year is good to Susan and her portfolio grows by 10%. So, it's now worth $1.1 MM. Susan's happy and decides to go ahead with the second million, bringing her portfolio up to $2.1MM.

Unfortunately, year 2 isn't so kind and the portfolio drops by 6%. That takes Susan's $2.1MM down to $1,940,000.

Susan is dismayed. Her advisor (who has naturally counselled her about the ups and downs of the market), says "well, up 10% one year, down 6% the next – that's roughly a 2% annual return". The advisor is thinking "time-weighted".

Susan's "experience" is different, naturally. She says "hold on a minute, I didn't make 2%, I've lost money!" To her, she's lost $60,000 on a $2MM investment. Susan is thinking "money-weighted".

Both perspectives are valid, it's just a different way of looking at things. To the advisor, he can't control when clients put money into the market – and furthermore, there's now no way to compare ***his*** performance against a benchmark. A "2% return" in the case above may have been excellent.

From the investor's perspective, most clients (I've found) don't really care about benchmarks. They have a long-term rate-of-return target – and just want to grow their money!

My take on this is that long-term, most clients see very little difference between the two measurements. But my bias is towards the more traditional time-weighted system – after all, while "money-weighted" may tell you how *you're* doing, "time weighted" tells you how your *advisor* is doing. That's a key consideration when you've hired someone to manage your investments.