March 31, 2010

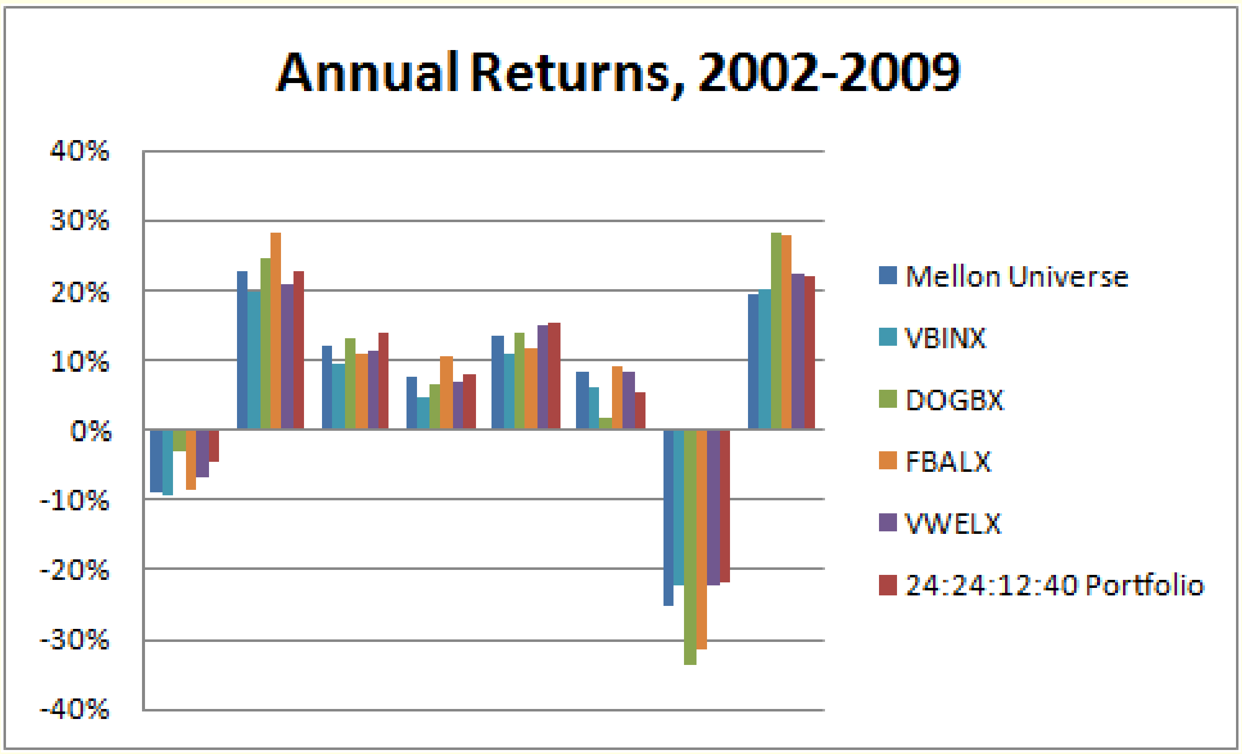
Benchmarking

A benchmark is a way to measure investment acumen. To be meaningful, the benchmark must reflect your investment objectives. For those who are retired or nearing retirement, a benchmark with a significant allocation to both equities and bonds is probably appropriate.

A retirement benchmark might include 60 percent US equities and 40 US percent bonds. The Vanguard Balanced fund (VBINX) is a 60:40 benchmark.

The allocation within the equity and bond elements affects performance. A benchmark which is limited to US stocks and bonds is not ideal. The allocations should also probably be varied in response to anticipated market conditions. Designing an appropriate benchmark is becoming complex.

An alternative approach is to test the performance of managers whose investment objective is similar to your own. Morningstar publishes the average performance of managers with similar investment objectives.



University endowments and pension funds tend to have objectives which are

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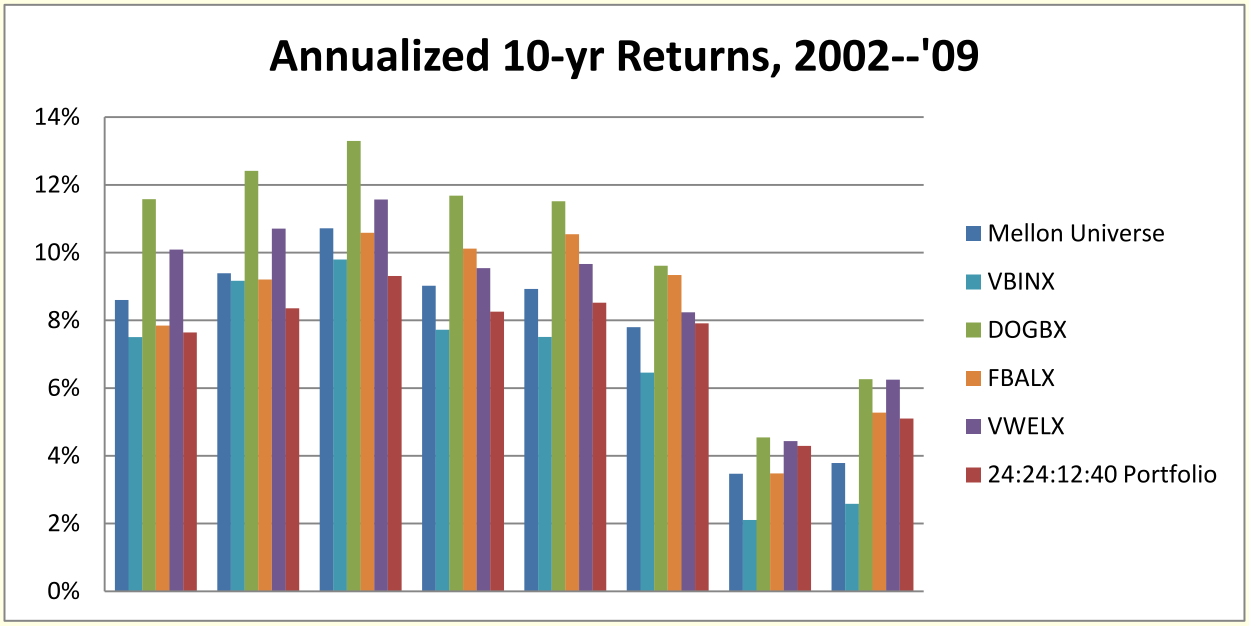
similar to those of retirement portfolios. BNY Mellon collects information on nearly seven hundred such funds and reports performance quarterly.

The median annual returns for the past eight years are compared to the returns of several potential retirement portfolios in the accompanying figure.

The return of the Vanguard Balanced fund equaled or exceeded the median return of the Mellon Universe in only two of these eight years. The professional fund management appears to be providing value in comparison to a passive 60:40 benchmark of US stocks and bonds.

A portfolio composed of 24% US stocks (represented by VTSMX), 24% international stocks (represented by VGTSX), 12% REITS (represented by FRESX) and 40% US bonds (represented by VTBMX) returned as much or more as professional management in six of these eight years. The Dodge and Cox Balanced fund (DODBX) and the Fidelity Balanced fund (FBALX) returned as much or more in five of the years and the Vanguard Wellington fund (VWELX) returned as much or more in three of the years.



Annualized returns over ten years are shown in the second figure. The 10-year return of the Vanguard Balanced fund did not exceed the median return of the Mellon universe in any of the eight 10-year intervals. The returns of the Fidelity Balanced fund and of the 24:24:12:40 portfolio exceeded the median return of the Mellon universe in five and three of the intervals respectively. Dodge and Cox Balanced fund and Vanguard Wellington fund bested the median return of the Mellon Universe in all eight intervals.

An 8% investment return is "[the most common assumption for all 231 state-administered pension plans]" - Pew Center on the States, February 2010, p.5.

How did your portfolio perform? Fidelity Investments inaugurated a new service "Personal Rate of Return" in February 2010. This service might be useful to your benchmarking efforts going forward.