



## **A benchmark**

*By Trey Pittenger*

A benchmark is a standard or point of reference against which to compare or assess something or someone. That's a pretty dry definition; however, when we sit back and think about it, there are a variety of benchmarks we encounter in our every-day lives. Whether it's grades in school, a diet, or even your golf game, there are generally standards by which or criteria against which we measure our performance or progress. But when it comes to your investments, what should be your benchmark?

Our view at P&A is that there are three primary benchmarks to which an investor should compare their investments, all unique in their own way. Let's dig in:

### **Benchmark #1 – The Risk-Free Rate of Return**

The lowest bar to jump over, the risk-free return (RFR), is what you earn on cash investments, currently 0%-0.25%. There is less risk in cash from a volatility standpoint but little reward. For an investor to take on more risk, they should expect a greater reward. Not too complicated.

Of course, we all know there are no guaranteed returns in stocks, but what we do know, using history as our guide, is that our chances of success increase when we lengthen our holding periods. If your 5-year annual return in stocks exceeds that of the RFR, then you have validated the risk.

### **Benchmark #2 - The long-term return needed to achieve your financial goals**

Defined by developing a financial plan, this is the most critical benchmark for an investor. It's what allows you to live the life that's important to you. In its simplest form, a financial plan uses three main variables:

1. Goals (your desired retirement age and standard of living)
2. Resources (your investments, Social Security, other incomes, etc.)
3. Assumptions (life expectancy, inflation, investment returns)

Along with your risk tolerance, your long-term return requirement is the other key component in determining your optimal asset allocation. We have many tools and resources that help us define this for you, many times in as little as a one-hour meeting with 15-20 minutes of prep on your end.

### **Benchmark #3 – The P&A Blend**

We created the P&A Blend benchmark 20 years ago by combining a handful of well-known stock market indexes, including the Dow Industrials, S&P 500, and Russell 2000. (For a deeper dive into the components of the P&A Blend Index, [please click here](#).) This benchmark lives in your P&A Portal, as well as the quarterly reports we send you. It is important to note that benchmarks are challenging to outperform; they do not pay taxes or fees, and most importantly, they don't have emotions. Individual investors do. Even so, we hold these benchmarks out there as a comparison point, and we strive to perform well against them over full market cycles.

### **Conclusion**

Defining, embracing, and comparing your investments to these benchmarks will help you to be a better long-term investor. As always, if this piques your interest and you would like to dig deeper, give us a ring. That is what we are here for.

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