



Invest

Measuring Investment Performance

When measuring investment performance, *total return* is a key number. It's the figure that essentially provides a bottom line on how well an investment is performing.

The Basics

In investing, the word *return* refers to the amount an investment earns. For example, if a \$100 investment earns \$15 interest, the return is \$15 or 15%.

Total return also considers how much the investment has gained or lost in value. Therefore, if the investment just mentioned lost 5% of its initial value, its total return would be 10%.

$$\begin{aligned} & \$100 \text{ investment} + \$15 \text{ interest} \\ & \quad - \$5 \text{ loss in value} = \$110 \\ \\ & \$110 - \$100 \text{ initial investment} \\ & \quad = \$10 \text{ or } 10\% \text{ total return} \end{aligned}$$

Average annual total return takes compounding into account as well as the length of time the investment has been held.

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Makeup of a Fund's Total Returns

Three things affect a mutual fund's total return:

Appreciation/Depreciation — This is the increase or decrease in the market value of the fund's shares.

Income — This includes any interest or dividends the fund's investments earn.

Capital Gains — These are profits that are realized when appreciated investments in the fund's portfolio are sold.

Using Total Return to Measure Performance

An investment's total return (or average annual total return) can be compared with the total return of other investments. It can also be used to get a picture of how the investment is doing in the broader market by comparing it with an index that measures similar investments. For example, the S&P 500 tracks the performance of 500 stocks issued by large U.S. companies. So it is often used as a “benchmark” index to gauge the performance of large-cap stock funds.



There may be periods when an investment doesn't perform as well as similar investments or a benchmark index. However, that doesn't necessarily mean that it's a "bad" investment. Other factors, such as the economy as a whole or a decline in one industry, can affect performance. And the investment may recover. However, an investment that underperforms for a long time may not be worth keeping.

Mutual fund statements provide information on the fund's shares and long-term returns.

Investors should consider a fund's investment objectives, charges, expenses, and risks carefully before investing. More information about the fund is available in the prospectus, which should be read carefully before investing. Shares, when redeemed, may be worth more or less than their original cost.

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